



**Ruifeng Power Group Company Limited**  
**瑞豐動力集團有限公司**

(Incorporated in Cayman Islands with limited liability)  
Stock code : 2025

**Annual Report**  
**2023**



# Contents

2	Corporate Information
4	Company Overview
5	Financial Summary
7	Chairman's Statement
9	Directors and Senior Management
15	Management Discussion and Analysis
28	Directors' Report
43	Corporate Governance Report
56	Environment, Social and Governance Report
83	Independent Auditor's Report
88	Consolidated Statement of Profit or Loss
89	Consolidated Statement of Profit or Loss and Other Comprehensive Income
90	Consolidated Statement of Financial Position
92	Consolidated Statement of Changes in Equity
93	Consolidated Cash Flow Statement
95	Notes to the Financial Statements

# Corporate Information

## DIRECTORS

### Executive Directors

Mr. Meng Lianzhou  
(Chairman and Chief Executive Officer)  
Mr. Liu Zhanwen  
Mr. Liu Enwang  
Mr. Zhang Yuexuan

### Independent Non-Executive Directors

Mr. Ren Keqiang  
Mr. Yu Chun Kau  
Mr. Wan Ming

## AUDIT COMMITTEE

Mr. Yu Chun Kau (Chairman)  
Mr. Ren Keqiang  
Mr. Wan Ming

## NOMINATION COMMITTEE

Mr. Wan Ming (Chairman)  
Mr. Meng Lianzhou  
Mr. Yu Chun Kau

## REMUNERATION COMMITTEE

Mr. Ren Keqiang (Chairman)  
Mr. Meng Lianzhou  
Mr. Yu Chun Kau

## COMPANY SECRETARY

Mr. Lee Yiu Man (appointed on 30 June 2023)  
Mr. Wong Ka Wai (resigned on 30 June 2023)

## AUTHORISED REPRESENTATIVES

*(for the purpose of the Listing Rules)*

Mr. Meng Lianzhou  
Mr. Lee Yiu Man (appointed on 30 June 2023)  
Mr. Wong Ka Wai (resigned on 30 June 2023)

## LEGAL ADVISOR

*As to Hong Kong Law:*  
DeHeng Law Offices (Hong Kong) LLP  
28/F, Henley Building  
5 Queen's Road Central  
Hong Kong

Room 3507, 35/F  
Edinburgh Tower  
The Landmark  
15 Queen's Road Central, Central  
Hong Kong

## AUDITOR

KPMG  
Certified Public Accountants  
Public Interest Entity Auditor registered in  
accordance with the Accounting and Financial  
Reporting Council Ordinance  
8/F, Prince Building  
10 Chater Road  
Central  
Hong Kong

## PRINCIPAL BANKERS

China Construction Bank Shenzhou Branch  
Industrial Commercial Bank of China Shenzhou  
Branch

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN PRC

Middle of East Taishan Road  
Shenzhou  
Hebei Province  
The People's Republic of China

## **PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Room 4109, 41/F  
China Resources Building  
26 Harbour Road  
Wanchai  
Hong Kong

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Conyers Trust Company (Cayman) Limited  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

## **HONG KONG SHARE REGISTRAR BRANCH**

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

## **STOCK CODE**

Hong Kong Stock Exchange: 2025

## **WEBSITE**

[www.hbsgt.com](http://www.hbsgt.com)

# Company Overview

Ruifeng Power Group Company Limited (the “**Company**” and, together with its subsidiaries, the “**Group**”) is a specialized manufacturer of cylinder blocks and cylinder heads, a major structure in automobile engines, based in Shenzhou, Hebei Province, the People’s Republic of China (the “**PRC**”).

Production of cylinder blocks and cylinder heads in the PRC has historically been split between internal production by manufacturers of automobiles and automobile engines and external outsourcing to specialized producers of automobile engine spare parts. The size of our business operations and significant production capacity allow us to secure the use of our products by some of the leading automobile manufacturers and engine producers located in the PRC. As at 31 December 2023, we owned and operated a total of 5 precision casting lines and 33 mechanical processing lines (including 27 for cylinder blocks, 6 for cylinder heads, 1 for cylinder blocks and cylinder heads as the same line and 4 for ancillary cylinder block components and others).

## **The main products are:**

**Cylinder Blocks** – A main structure of the automobile engine in which combustion of fuel takes place. It provides space for the required number of cylinders along with the associated surrounding structures, including coolant passages, intake and exhaust passages and crankcases. As a central component of an automobile engine, defect acceptance levels for cylinder blocks need to be very low as it directly affects the engine performance, life and other important indicators.

**Cylinder Heads** – A major component of the engine which sits on top of the cylinder blocks and provides space for passages that feed air and fuel into a cylinder and allow the exhaust to escape. A cylinder heads has to withstand high pressure and high temperatures while retaining its shape and form to seal the cylinder blocks via the head gasket.

**Ancillary Cylinder Block Components and others** – including main bearing cap and flywheel. Main bearing caps are used in piston engines to secure the crankshaft against the cylinder blocks. Our main bearing caps help prevent the forces created by the piston and transmitted to the crankshaft by forcing the crank to convert the reciprocating movement into rotation. A flywheel is designed to keep the crankshaft in the cylinder blocks turning smoothly during the periods when no power is being applied. Our flywheels are easy to install and highly resistant to rust and corrosion.

We believe that the following competitive strengths of the Group can support our Group’s long-term business development:

- The specialized and established manufacturer of cylinder blocks and cylinder heads and ancillary cylinder block components in the PRC;
- A high level of flexibility in production facilities and process to meet the specific needs of different customers;
- Continuous optimization and innovation of production process and technologies; and
- Strong design and research and development capabilities.

# Financial Summary

## MAJOR ITEMS OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December	2023	2022	2021	2020	2019
Revenue (RMB'000)	<b>718,487</b>	600,487	679,763	433,475	355,049
Gross profit (RMB'000)	<b>87,706</b>	97,466	118,220	106,492	85,680
Gross profit margin	<b>12.2%</b>	16.2%	17.4%	24.6%	24.1%
Profit for the year attributable to equity shareholders of the Company (RMB'000)	<b>11,268</b>	20,412	36,570	33,600	30,115
Net profit margin	<b>1.6%</b>	3.4%	5.4%	7.8%	8.5%
Basic and diluted earnings per share (RMB)	<b>0.014</b>	0.026	0.046	0.042	0.038



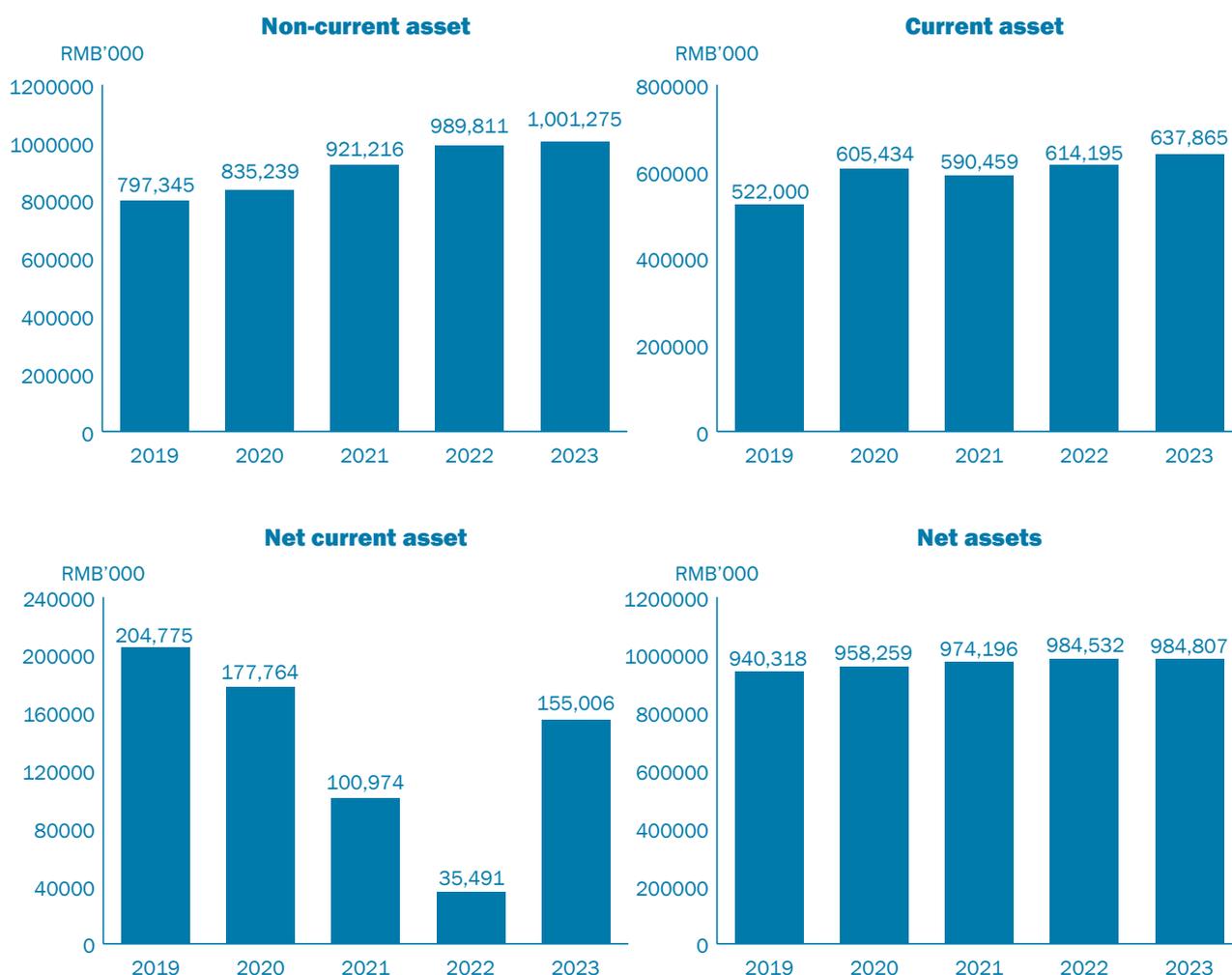
# Financial Summary

## MAJOR ITEMS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	2023	2022	2021	2020	2019
Non-current assets (RMB'000)	<b>1,001,275</b>	989,811	921,216	835,239	797,345
Current assets (RMB'000)	<b>637,865</b>	614,195	590,459	605,434	522,000
Current liabilities (RMB'000)	<b>482,859</b>	578,704	489,485	427,670	317,225
Net current assets (RMB'000)	<b>155,006</b>	35,491	100,974	177,764	204,775
Non-current liabilities (RMB'000)	<b>171,474</b>	40,770	47,994	54,744	61,802
Net assets (RMB'000)	<b>984,807</b>	984,532	974,196	958,259	940,318
Gearing ratio (Note)	<b>24.7%</b>	23.9%	16.4%	16.7%	12.9%

### Note

Gearing ratio equals total debt divided by total equity as at the end of the year. Total debt includes all interest-bearing borrowings.



# Chairman's Statement

Dear shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of Ruifeng Power Group Company Limited (the “**Company**”), I am going to present to the shareholders the annual results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2023 (“**2023**” or the “**Year**”).

In 2023, with the joint efforts of our staff, the Group accumulated valuable experience. Leveraging on our excellent research and development and production capabilities, the Group was able to enhance its reputation amid fierce market competition and improve its operating revenue.

The year of 2023 was pivotal for the Group in terms of product upgrading and transformation. Seizing the opportunities presented by the current trends in the new energy vehicle industry and light-weight materials, the Group made proactive arrangement in 2023 and has achieved noticeable results. The Group has taken initial steps in transforming its presence in the new energy parts industry, in order to provide more competitive products to both existing and potential customers. The transformation has resulted in increased production and sales volumes for new energy products. During the year, the Group commenced the renovation of its new energy vehicle parts plant, in order to building a platform and development track for the new energy vehicle products and preparing for the expansion into the automobile intelligent equipment manufacturing industry.

Meanwhile, in order to achieve global sales goals and mitigate risks associated with reliance on a single domestic market, the Group has actively expanded into overseas export markets. With international standard quality products and technologies, the Group aims to seek new customers in diverse overseas markets through overseas business promotion and positive word-of-mouth from our existing customers. In 2023, the Group has allocated additional resources to expand overseas markets and optimize our overseas sales team, with an expectation of a gradual increase in the proportion of export business.

2024 is a year for us to enhance our business. The Group must strive to expand its portfolio of new energy products and explore new business of overseas export, thereby establishing a stable foothold for future sales revenue. After enduring the challenges of product transformation and customer upgrade over the past few years, the Group has entered a stage with stable and rapid growth in product sales under a healthy market environment. In 2024, the Group anticipates a swift increase in production volume in new business segment and full sales orders throughout the year, leading to improving the Group's performance result and securing a stable income for employees. We will remain committed to a people-oriented development concept for concerning the growth of our staff and improving staff benefit.

In light of the current severe market competition, sustaining business growth poses a challenge for every member of the management team. The management team must prevent product quality incidents and production suspension while obtaining additional new orders based on all the existing order fulfilled. Therefore, each business unit of the Group must establish its own operational model and management system to complete production goals efficiently and cost-effectively. The Group has put in place additional rewards to incentivize each business unit to meet expected goals.

The company provides a platform for everyone to display their personal abilities, and everyone must work with the thinking mode of I am the boss to realize the value of life. The new year has kicked off, let us unite with unwavering passion, strengthened confidence, and a pragmatic approach to conquer new challenges and achieve greater success.

# Chairman's Statement

## **Acknowledgments:**

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to my colleagues on the Board for their contributions to the development of the Group in 2023. In addition, on behalf of the board, I wish to extend my appreciation to all the staff for their dedication and hard work throughout this challenging year, which enabled the Group to overcome various obstacles and achieve success in our endeavors. We would also like to extend our appreciation to all shareholders, customers, suppliers, business partners and other stakeholders for their trust and long-term support. The Group will continue its efforts to maintain growth and strive to deliver sustainable long-term value and satisfactory returns to our shareholders.

**Meng Lianzhou**  
*Chairman*

Shenzhen, the PRC  
28 March 2024

# Directors and Senior Management

## DIRECTORS

### Executive Directors

**Mr. Meng Lianzhou (孟連周)**, aged 63, is the executive Director, chief executive officer and chairman of the Group who is responsible for the overall strategic development and business development of the Group. Mr. Meng was appointed as a Director of the Company on 2 May 2017 and re-designated as an executive Director on 10 August 2017. Mr. Meng is also a director of Hebei Ruifeng Technology Co., Limited (河北瑞豐科技有限公司) (“**Hebei Ruifeng**”), an indirect wholly-owned subsidiary of the Company. He has over 22 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Meng is one of the founders of the Group and one of the controlling shareholders of the Company (the “**Controlling Shareholders**”). Mr. Meng graduated from Hebei Radio and TV University (河北廣播電視大學) with a certificate in corporate management in July 1988. He has been a director of the Group since June 2002 and our chairman since October 2003. Mr. Meng was named a “Model Worker in Hebei Province” (河北省職工勞動模範) by Hebei Municipal Government and Hebei Federation of Trade Unions of Shenzhou City (河北省人民政府、河北省總工會) in 2009. Furthermore, Mr. Meng has also held offices as the vice president of the Union of Returned Overseas Chinese in Hengshui City (衡水市歸國華僑聯合會) since 2012 and the vice president of the Industry and Commerce Union in Hengshui City (衡水市工商業聯合會) since 2016. Mr. Meng is a director of Dragon Rise Ventures Limited (“**Dragon Rise**”), one of the Controlling Shareholders. Mr. Meng’s interest in the shares of the Company (the “**Shares**”) and its associated corporations as at 31 December 2023 is disclosed under the section headed “Directors’ Report – Directors’ and chief executive’s interests and short positions in the shares, underlying shares and debentures”. Mr. Meng is the father of Ms. Meng Lingjin, being the general manager of Hebei Ruifeng and one of the senior management members of the Group.

**Mr. Liu Zhanwen (劉占穩)**, aged 71, is the executive Director who is responsible for the overall business operation of the Group. He was appointed as an executive Director of the Company on 10 August 2017. Mr. Liu is also a director of Hebei Ruifeng. He has over 22 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Liu is one of the founders of the Group and one of our Controlling Shareholders. He joined Hebei Cylinder Block Factory (河北省燃機缸體廠) (“**Hebei Cylinder Block Factory**”) in March 1995 as a sales department officer until the restructuring of Hebei Cylinder Block Factory in October 2003. Mr. Liu has been a director of the Group since June 2002 and had held various positions including assistant of general manager, deputy general manager and sales manager in the Group. Mr. Liu is a director of Dragon Rise. Mr. Liu’s interest in the shares of the Company and its associated corporations as at 31 December 2023 is disclosed under the section headed “Directors’ Report – Directors’ and chief executive’s interests and short positions in the shares, underlying shares and debentures” in this annual report.

## Directors and Senior Management

**Mr. Liu Enwang (劉恩旺)**, aged 62, is the executive Director who is responsible for the overall financial management of the Group. He was appointed as an executive Director of the Company on 10 August 2017. Mr. Liu is also a director of Hebei Ruifeng. He is one of the founders of the Group and one of our Controlling Shareholders. Mr. Liu graduated from the School of Agriculture and Mechanization, Hengshui (衡水地區農業機械化學校) (currently known as Hengshui Industrial School (衡水工業學校)) with a major in machinery maintenance in May 1981. Mr. Liu joined Hebei Cylinder Block Factory in March 1995 as an accountant and was later promoted to be the deputy section manager in July 1995 and the section manager in May 1997, until the restructuring of Hebei Cylinder Block Factory in October 2003. He has been a director of the Group since June 2002. He had been the financial director of Hebei Ruifeng Engine from October 2003 to July 2007. Since August 2007, he has been the financial director and deputy general manager of Hebei Ruifeng, mainly responsible for financial management. Mr. Liu is a director of Dragon Rise. Mr. Liu's interest in the shares of the Company and its associated corporations as at 31 December 2023 is disclosed under the section headed "Directors' Report – Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures" in this annual report.

**Mr. Zhang Yuexuan (張躍選)**, aged 75, is the executive Director who is responsible for the overall product research and development of the Group. He was appointed as an executive Director of the Company on 10 August 2017. Mr. Zhang is also a director of Hebei Ruifeng. He has over 22 years of experience in the cylinder blocks and cylinder heads manufacturing industry. Mr. Zhang is one of the founders of the Group and one of our Controlling Shareholders. He joined Hebei Cylinder Block Factory in March 1995 as a processing line director and was later promoted to be the vice plant manager in July 2000 until the restructuring of Hebei Cylinder Block Factory in October 2003. Mr. Zhang has been a director of the Group since June 2002. From October 2003 until the dissolution of Hebei Ruifeng Internal Combustion Engine Cylinder Block Company Limited (河北瑞豐內燃機缸體有限公司) ("**Hebei Ruifeng Engine**") in December 2009, he had held various positions in Hebei Ruifeng Engine including vice chairman, deputy general manager and general manager. He was the deputy general manager of Hebei Ruifeng from March 2016 to February 2017. Since February 2017, he has been the executive general manager of Hebei Ruifeng, mainly responsible for the product research and development. Mr. Zhang is a director of Dragon Rise. Mr. Zhang's interest in the shares of the Company and its associated corporations as at 31 December 2023 is disclosed under the section headed "Directors' Report – Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures" in this annual report.

# Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ren Keqiang (任克強)**, aged 50, is our independent non-executive Director. He was appointed as an independent non-executive Director on 11 December 2017. Mr. Ren graduated from High School Longkou Mining Bureau, Longkou City, Yantai City, Shandong Province (山東省煙台市龍口市龍口礦務局高中) (currently known as Longkou School, Longkou City (龍口市龍礦學校)) in July 1992. He has over 15 years of experience in the investment and management field. From October 1995 to November 2014 and from July 2018 to March 2020, Mr. Ren held various positions at Langfang Huari Furniture Co., Ltd. (廊坊華日家具股份有限公司), a company principally engaged in the sale and manufacturing of furniture in the PRC, he was the purchasing officer and deputy manager of the purchasing department from October 1995 to June 1997; the manager from July 1997 to October 2003; the investment manager from October 2003 to December 2011; the general manager of office furniture division and the assistant of the chairman from January 2012 to November 2014; the general manager of the investment department from July 2018 to March 2020, mainly is responsible for investment, asset management, and merger and acquisition. From January 2015 to July 2018, Mr. Ren is the general manager of Shenzhen Ren Intelligent Investment Co., Ltd (深圳仁智慧投資有限公司), a company principally engaged in equity investment and secondary stock market investment, and is mainly responsible for investment, assets management and mergers. From December 2014 to December 2020, Mr. Ren was the supervisor of Shenzhen Ren Intelligent Investment Co., Ltd. From December 2019 to August 2021, Mr. Ren was the director of Celebrity International Holdings Ltd (明星國際有限公司). From January 2020 to 2022, he was the director of Huayun Company Limited (華雲有限公司). Since March 2022 to present, he is a manager of sub-funds management division of Hebei Listing Share Investment Fund Company Limited (河北上市股權投資基金有限公司) and is mainly responsible for management and operation of sub-funds. Since September 2022 to present, he is a director and general manager of Langfang Fuxing Investment Co., Ltd (廊坊市富興投資有限公司) and is mainly responsible for daily corporate management. Since November 2022 to present, is a director and general manager of Gu'an Fangxing Equity Investment Fund Co., Ltd (固安方興股權投資有限公司) and is mainly responsible for daily corporate management.

## Directors and Senior Management

**Mr. Yu Chun Kau (余振球)**, aged 51, is our independent non-executive Director. Mr. Yu was appointed as an independent non-executive Director on 11 December 2017. Mr. Yu has over 27 years of experience in accounting, corporate finance, compliance and auditing. Mr. Yu graduated from The Chinese University of Hong Kong with a Bachelor of Business Administration Degree with first class honours in December 1994. In June 2005, he also obtained a Master of Corporate Governance Degree from The Open University of Hong Kong (currently known as Hong Kong Metropolitan University). Mr. Yu was admitted as a fellow member of The Association of Chartered Certified Accountants in November 2002. He was admitted as a fellow member and was registered as a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) in July 2005 and in October 2002, respectively. In March 2007, he was admitted as a senior international finance manager in the International Financial Management Association. In April 2015, he was also admitted as a fellow member of The Institute of Chartered Accountants in England and Wales. In September 2016, he was admitted as both a fellow member of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and as a fellow member of Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). He started his career at a major international accounting firm in 1994 and then worked for various Hong Kong listed companies and multinational corporations as executive director, chief financial officer and company secretary. Mr. Yu is currently the independent non-executive director of Forward Fashion (International) Holdings Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2528). Mr. Yu was an independent non-executive director of JiaChen Holding Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1937) from December 2019 to September 2021. He is the chief financial officer of Jacobson Pharma Corporation Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2633) since January 2019 and has been appointed as their Company Secretary since April 2021. Mr. Yu has also been appointed as the Company Secretary of JBM (Healthcare) Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2161) since November 2023.

**Mr. Wan Ming (萬明)**, aged 53, is our independent non-executive Director of the Company since July 2021. He obtained a degree of Computer Application from National University of Defense Technology in 1991. From September 1992 to October 1993, Mr. Wan served as an engineer of the Shenzhen Giant New Technology Co. Ltd (深圳巨人新技術有限公司). Since November 1993, Mr. Wan worked at Shenzhen Jiyatong Industrial Co., Ltd (深圳吉亞通實業有限公司) with his current position as the manager. Mr. Wan has over 29 years of experience in the fields of business development and automobile in the PRC.

### SENIOR MANAGEMENT

**Ms. Meng Lingjin (孟令金)**, aged 40, is the general manager of Hebei Ruifeng who is mainly responsible for overseeing the overall daily operations and management of Hebei Ruifeng. Ms. Meng graduated from Wuhan University of Science and Technology (武漢科技大學) and received a bachelor of degree of accountancy in 2007. Ms. Meng worked at Hengshui Municipal Market Supervision and Administration Bureau (衡水市市場監督管理局) from September 2007 to October 2020, and is mainly responsible for the works in relation to supervision and administration of the municipal market. Ms. Meng joined Hebei Ruifeng as a management trainee from November 2020 to December 2021, and her role involved rotating across different departments to gain exposure to all operation functions, policies, and staff duties. She was promoted to deputy general manager of Hebei Ruifeng in January 2022 and she oversaw the finance and administrative functions of Hebei Ruifeng as deputy general manager from January 2022 to December 2022. She was further promoted to the general manager of Hebei Ruifeng since January 2023. Ms. Meng is the daughter of Mr. Meng Lianzhou, being an executive Director, the chief executive officer and chairman of the Group.

## Directors and Senior Management

**Mr. Wei Xilai (位喜來)**, aged 39, is the secretary to chairman who is responsible for the overall administration work of the Group. Mr. Wei joined the Group as an office clerk in September 2006 and was promoted to be the secretary to chairman in February 2012. Mr. Wei graduated from Central Radio and Television University (中央廣播電視大學) (currently known as The Open University of China (國家開放大學)) with a diploma in Chinese linguistics and literatures in July 2011.

**Mr. Xie Fei (謝飛)**, aged 49, is the deputy general manager who is responsible for the overall management of business operations of Hebei Ruifeng. Mr. Xie graduated from Shenxian No. 2 Senior Vocational and Technical Secondary School (深縣第二高級職業技術中學) in May 1994. Mr. Xie joined Hebei Cylinder Block Factory in March 1995 as a tooling workshop worker until the restructuring of Hebei Cylinder Block Factory in October 2003. He joined the Group in October 2003 as a workshop supervisor. Mr. Xie was the production officer of Hebei Ruifeng Engine from May 2006 to July 2006, the vice plant manager of Hebei Ruifeng Engine from July 2006 to August 2007, the deputy minister of production of Hebei Ruifeng Engine from 1 August 2007 to December 2009, the deputy minister of production of Hebei Ruifeng from December 2009 to May 2011, the production minister of Hebei Ruifeng from May 2011 to March 2016 and the assistant to general manager of Hebei Ruifeng from March 2016 to February 2017. Since February 2017, he has been the deputy general manager of Hebei Ruifeng.

**Mr. Liu Hao (劉浩)**, aged 48, is the deputy general manager of Hebei Ruifeng and general manager of intelligent production division who is mainly responsible for overseeing product manufacturing, quality control, product research and development. Mr. Liu graduated from Shenzhou Shuang Jing Primary School (深州市雙井初中中學) in 1992 and obtain a diploma in electrification from Hebei Shenzhou Vocational Education Centre (河北深州市職業教育中心) in 2000. Mr. Liu joined Hebei Cylinder Block Factory as a general clerk since his graduation. He was promoted and held the position as sales manager from June 2002 till the restructuring of Hebei Cylinder Block Factory in October 2003. He joined the Hebei Ruifeng in October 2003 as a sales manager. Mr. Liu was further promoted and held the position as the minister of sales department of Hebei Ruifeng from March 2016 to March 2020. His position was changed to an assistant to general manager of Hebei Ruifeng from April 2020 to July 2022. He has been promoted to deputy general manager of Hebei Ruifeng since August 2022. He also serves as a general manager of the intelligent processing division since January 2024.

## Directors and Senior Management

**Mr. Lee Yiu Man (李耀文)**, aged 46, is the chief financial officer and company secretary of the Company. He was appointed as a chief financial officer and company secretary on 30 June 2023. He is responsible for overseeing the Group's financial management and company secretarial works. Mr. Lee graduated from the University of Wollongong, and obtained a bachelor's degree of commerce majoring in accounting in 2000. Mr. Lee is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Lee has over 23 years of finance experience in Hong Kong and the PRC. Before joining our Company, Mr. Lee has served as the group financial controller in Qiushi Technology Group Limited, an ELV system integration service provider in the PRC, from September 2019 to May 2023; as a financial controller in Grown Up Group Investment Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1842), from January 2018 to June 2019; as a group financial controller in Golden Dragon International Travel Co. Limited, a company engaged in inbound travel and retail from July 2017 to January 2018; and as an assistant financial controller in Lapco Holdings Limited, a company listed on the GEM of the Hong Kong Stock Exchange (stock code: 8472), from January 2017 to May 2017. From September 2011 to August 2016, Mr. Lee worked as a senior finance manager in Wang On Group Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1222), and Easy One Financial Group Limited, where he was responsible for the financial accounting functions in Hong Kong and the PRC. From November 2008 to September 2011, Mr. Lee worked as a finance manager at China Resources Gas Group Limited, a company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1193), where he was mainly responsible for overseeing group financial and management reporting affairs. From 2000 to 2008, Mr. Lee worked at several international and local accountants' firms in Hong Kong with his last position as an audit manager, where he was mainly responsible for audit assignments, audit planning and handling other audit matters.

### **COMPANY SECRETARY**

The company secretary is Mr. Lee Yiu Man. He is employed by us on a full-time basis. Please refer to his biographical details in the sub-section headed "Senior Management" above.

# Management Discussion and Analysis

## **INDUSTRY OVERVIEW**

The automobile industry is a significant pillar industry of the national economy. Increasing the volume of automobile sales has become crucial for boosting economic growth and stimulating domestic consumption. With the improved economic environment, technological advancements and favorable policies, the development of the automobile industry continues to thrive. The automotive market in the PRC is anticipated to experience steady growth in both production and sales volume in the future. Based on the PRC government's announcement published on 11 January 2024, the China Association of Automobile Manufacturers reports that, the volume of automobile production and sales in the PRC between January and December 2023 reached approximately 30.2 million units and approximately 30.1 million units, respectively, representing an increase of 11.6% and 12.0% as compared with the corresponding period last year.

### **Development of new energy vehicles**

In recent years, with consumers' increasing awareness of environmental protection and energy conservation and the continuous advancement of new energy vehicle technologies, the performance, safety, and affordability of new energy vehicles have significantly improved, which are more closely aligned with market demands. This has led to a gradual rise in consumer awareness and acceptance of new energy vehicles. Meanwhile, the construction of charging infrastructure and the development of corresponding services have been further enhanced to provide better support for the advancement of new energy vehicles. The PRC government has offered strong policy support to the new energy vehicle industry, including financial subsidies, purchase tax exemptions, and the building of charging infrastructure. These policies have fostered the growth of the new energy vehicle industry. In light of the above factors, the new energy vehicle industry in the PRC is set to sustain its rapid growth in the future.

### **Increasing demand for vehicles**

The automotive engine cylinder block industry is an important part of the automobile industrial chain. Serving as the engine's core component, the cylinder block provides structural support for the engine and performs crucial functions such as lubrication, cooling, and sealing. With ongoing economic development, coupled with rising living standards, and a steady decline in automobile prices, the demand for automobiles is on the rise. Consequently, the demand for automotive engine cylinder blocks will continue to increase simultaneously and the market of this component is poised for expansion. The continuous growth of the economy is a strong driving force for the ongoing development of the automotive engine cylinder block industry in the future.

### **Technological advancements of engine cylinder blocks**

With the continuous advancement of science and technology, the technology development of engine cylinder blocks is also constantly improving. The cylinder block is one of the key components of the automobile engine, and its quality and performance may have direct impacts on the safety and functionality of the automobile. Therefore, enterprises are intensifying their focus on enhancing technological proficiency and production capabilities. They are also capable of customized production tailored to meet market demands and customer needs, which will further promote the development of the engine cylinder block industry.

# Management Discussion and Analysis

## National policies and measures

During the Year, the PRC government introduced a series of policies and measures at both the national and local levels to stimulate automobile consumption. These policies and measures include:

- In June 2023, in order to support the development of the new energy vehicle industry and stimulate automobile consumption, the Ministry of Finance, the State Administration of Taxation, and the Ministry of Industry and Information Technology jointly released the Announcement on Continuing and Optimizing the Vehicle Purchase Tax Reduction and Exemption Policy for New Energy Vehicles (《關於延續和優化新能源汽車車輛購置稅減免政策的公告》). The announcement proposes to continue and optimize the vehicle purchase tax reduction and exemption policy for new energy vehicles.
- In July 2023, for the purposes of further stabilizing and increasing automobile consumption, optimizing the management system and market environment for automobile purchase and use, and exerting greater efforts to promote the sustainable and healthy development of new energy vehicles, the National Development and Reform Commission, together with relevant departments and entities, has formulated the Several Measures for Promoting Automobile Consumption (《關於促進汽車消費的若干措施》). These measures can bolster automobile consumption, and drive the high quality development of the upstream and downstream related industries in the automobile industrial chain.
- In August 2023, in order to maintain the stable development of the automobile industry and further improve the quality of the industry, the Ministry of Industry and Information Technology, the Ministry of Finance, the Ministry of Transport, the Ministry of Commerce, the General Administration of Customs, the General Administration of Financial Supervision and the National Energy Administration jointly issued the Work Plan for Stable Growth of the Automobile Industry (2023-2024) (《汽車行業穩增長工作方案(2023-2024年)》). This measure aims to maintain the stability of traditional fuel vehicles usage while encouraging enterprises to adopt a green, low-carbon approach by actively exploring the utilization of hybrid electric vehicles, low-carbon fuels, and other technological solutions, so as to sustain the stable growth of the automobile industry. This measure also guides both the upstream and downstream enterprises in the automobile industrial chain to strengthen the supply-demand coordination and in-depth collaboration by, amongst others, fostering strategic alliances, entering into long-term contracts, and facilitating technological cooperation.

Overall, the automobile engine cylinder block industry is a competitive high-tech field with great market potential. Enterprises need to constantly innovate and enhance their technological competencies so as to adapt to the evolving market dynamics and trends and meet the needs of customers.

## BUSINESS REVIEW

The Group is principally engaged in the design, development, manufacture and sales of cylinder blocks, as well as cylinder heads and ancillary cylinder block components and others, to automobile manufacturers and engine manufacturers. The Group works closely with its customers to provide a set of high-quality and customized products. The Group conducts manufacturing operations for the major products through a closely integrated cycle.

## Management Discussion and Analysis

For the year ended 31 December 2023, revenue and profit for the year attributable to equity shareholders of the Company amounted to approximately RMB718.5 million and approximately RMB11.3 million, representing an increase of approximately 19.7% and decrease of approximately 44.8% as compared to the year ended 31 December 2022, respectively. The increase in revenue was mainly attributable to the increase in sales orders from customers. The decrease in profit for the year attributable to equity shareholders of the Company is primarily attributable to (i) a decrease in government grants recognized as compared with the year ended 31 December 2022 and (ii) a decrease in gross profit, primarily due to the obtaining and securing of further sales orders from prominent automobile manufacturers for the products of cylinder blocks and cylinder heads at lower gross profits, which is also a result of the Group's latest strategic objective to increase the Group's share of the market.

During the year ended 31 December 2023, the Group has adjusted its market strategy and considerable efforts were dedicated to the research and development of new products tailored for new energy vehicles. Despite these products being in early development stages, necessitating substantial costs for refinement and enhancement with current returns being relatively low temporarily, the Board considers these new products signify our commitment to fortifying the Group's competition capacity which will increase the Group's market share in the industry. The Board remains optimistic about these initiatives, anticipating they will fulfill market needs and catalyze a surge in orders from leading automobile manufacturers in 2024, thereby strengthening the Group's revenue stream.

For the year ended 31 December 2023, the Group was principally engaged in the manufacturing of cylinder blocks used for a wide variety of vehicles, including passenger vehicles, commercial vehicles and industrial vehicles. The Group also manufactures cylinder heads as well as certain structural components of cylinder blocks and others, primarily including main bearing caps and flywheels. The following table sets forth the revenue and sales volume by each segment and major product type for the years ended 31 December 2023 and 2022:

	For the year ended 31 December					
	2023 As a percentage of total revenue %	Sales volume units	2022 As a percentage of total revenue %	Sales volume units		
	Revenue RMB'000		Revenue RMB'000			
Cylinder blocks						
– passenger vehicles	172,199	24.0	144,923	24.1	202,198	
– commercial vehicles	252,889	35.2	247,390	41.2	253,576	
– industrial vehicles	148,227	20.6	90,149	15.0	63,744	
Subtotal	573,315	79.8	482,462	80.3	519,518	
Cylinder heads	138,451	19.3	113,820	19.0	194,487	
Ancillary cylinder block components and others	6,721	0.9	4,205	0.7	104,370	
Total	718,487	100.0	600,487	100.0		

# Management Discussion and Analysis

## Cylinder Blocks for Passenger Vehicles

The cylinder blocks for passenger vehicles are normally used in light-weight engines of 1.0 to 1.6 liters. These cylinder blocks for passenger vehicles are produced either from grey cast iron alloy which provides high strength and wear resistance, or from aluminum alloy which is lighter in weight and can be used in more fuel-efficient engines. The portion of total revenue from sales of cylinder blocks for passenger vehicles slightly decreased from approximately 24.1% of the Group's total revenue for the year ended 31 December 2022 to approximately 24.0% for the year ended 31 December 2023. Sales volume of cylinder blocks for passenger vehicles increased by approximately 19.5% from approximately 202,000 units for the year ended 31 December 2022 to approximately 242,000 units for the year ended 31 December 2023. Such increase was primarily due to increase in sales orders from prominent automobile manufacturers and engine manufacturers.

With the intense market competition, the Group closely monitors the rapidly evolving market and the strategies adopted by our competitors. Our market strategy is adjusted according to shifts in market trends and customer demands. In order to expand our market share, the Group has further enhanced the cooperation with prominent automobile manufacturers to customize our products to meet their specific needs in response to intense market competition. In addition, our customers mainly comprise prominent automobile manufacturers. The increase in sales to these manufacturers of automobiles has led to increase in demand for our products and resulting in a rise in sales orders to the Group.

In recent years, as new energy vehicles become more popular, most consumers choose to purchase new energy vehicles or plug-in hybrid electric (the “**PHE**”) vehicles for replacement of their old vehicles as PHE vehicles are more economical than gasoline-powered vehicles caused by an iterative computing upgrade based on electrification technology development, resulting in reduction in fuel consumption. Based on the announcement published by the PRC government dated 11 January 2024, the China Association of Automobile Manufacturers reports that the sales volume of new energy vehicles for the year ended 31 December 2023 has increased by 37.9% as compared with the corresponding period last year, and reaching approximately 9.5 million units. The Group expects the sales of cylinder blocks for passenger vehicles will continue to increase, taking into account the increase in customer's demand for the PHE vehicles.

## Cylinder Blocks for Commercial Vehicles

The cylinder blocks for commercial vehicles are normally used in engines of 1.5 to 2.1 liters. The cylinder blocks for commercial vehicles are made from grey cast iron alloy. The portion of total revenue from sales of cylinder blocks for commercial vehicles decreased from approximately 41.2% of the total revenue for the year ended 31 December 2022 to approximately 35.2% for the year ended 31 December 2023. The sales volume of cylinder blocks for commercial vehicles increased by approximately 6.0% from approximately 254,000 units for the year ended 31 December 2022 to approximately 269,000 units for the year ended 31 December 2023. The increase in sales volume was mainly due to the rise in sales orders from a prominent automobile manufacturer and an engine manufacturer. Taking advantage of the post-COVID-19 economic recovery, demand for commercial vehicles has risen which led to an increase in demand for our products.

# Management Discussion and Analysis

Due to our high quality of products and strong production capacity, we have successfully obtained further sales orders from a leading automobile manufacturer with sales volume amounting to approximately 33,000 units for the year ended 31 December 2023 as compared with approximately 15,000 units for the year ended 31 December 2022. Furthermore, an engine manufacturer has increased its export sales to overseas in 2023 which in turn led to an increase in demand for our products and resulting in an increase in sales orders for the Group.

Pursuant to Notice on Further Strengthening the Production and Registration Management of Light Trucks and Mini Passenger Vehicles (《關於進一步加強輕型貨車、微型載客汽車生產和登記管理工作的通知》) issued by the Ministry of Industry and Information Technology of the PRC and Ministry of Public Security of the PRC, light and small commercial vehicles must use engines of 2.5 liters or less. The Group expects the demand of the cylinder blocks for commercial vehicles from the customers will rise in the future. In addition, in order to increase the Group's market share of cylinder blocks for commercial vehicles, the Group allocated more resources into both overseas and domestic markets in pursuit of potential customers.

## **Cylinder Blocks for Industrial Vehicles**

The cylinder blocks for industrial vehicles are designed for use in a variety of industries, such as farming, urban construction and landscape engineering. The cylinder blocks for industrial vehicles are made from grey cast iron alloy and are normally used in engines of 2.1 liters or above. The portion of total revenue from sales of cylinder blocks for industrial vehicles increased from approximately 15.0% of total revenue from sales of cylinder blocks for the year ended 31 December 2022 to approximately 20.6% for the year ended 31 December 2023. Meanwhile, sales volume of cylinder blocks for industrial vehicles increased by approximately 78.5% from approximately 64,000 units for the year ended 31 December 2022 to approximately 114,000 units for the year ended 31 December 2023. Such increase was primarily attributable to an uptick in sales orders from new customers.

During the Year, the Group gained new customers engaged in selling cylinder blocks to the Russian market. The Group has sold approximately 35,000 units cylinder blocks for industrial vehicles to the new customers for the year ended 31 December 2023, generating sales revenue of approximately RMB32.3 million. Meanwhile, the Group has further cooperated with a customer by selling our products to its overseas production base. The customer increased its number of sales orders from us and the Group has commenced mass production for its orders during the Year. The sales volume to this customer is approximately 17,000 units for the year ended 31 December 2023 as compared with approximately 5,000 units for the year ended 31 December 2022.

The increase in sales orders from a customer's overseas production bases and new customers who are engaged in exporting our products overseas demonstrates that the Group's product quality has achieved global standards. In the future, the Group will reallocate more resources to explore overseas markets and identify further cooperation opportunities with overseas customers. The Group expects the sales of cylinder blocks for industrial vehicles will increase due to growth in non-road sectors overseas which will in turn lead to an increase in the demand for industrial vehicles used in these sectors.

# Management Discussion and Analysis

## Cylinder Heads

The cylinder heads are primarily used in passenger and commercial vehicles and are often sold together with cylinder blocks to automobile manufacturers and engine manufacturers. The portion of revenue from sales of cylinder heads increased from approximately 19.0% of total revenue for the year ended 31 December 2022 to approximately 19.3% of total revenue for the year ended 31 December 2023. Meanwhile, sales volume of cylinder heads increased by approximately 12.5% from approximately 194,000 units for the year ended 31 December 2022 to approximately 219,000 units for the year ended 31 December 2023. Such an increase was primarily attributable to increase in sales orders from customers.

In particular, our cylinder heads are used for a range of vehicle models manufactured by a prominent automobile manufacturer. The increase in sales volume to this automobile manufacturer has driven up the demand, which leads to an increase in sales orders of cylinder heads. The sale volume is approximately 99,000 units to this customer for the year ended 31 December 2023 as compared with approximately 62,000 units for the year ended 31 December 2022.

## Production Facilities

All production facilities of the Group are located in Shenzhou City, Hebei Province, the PRC. As at 31 December 2023, the Group owned and operated a total of 5 precision casting lines and 33 mechanical processing lines (including 27 for cylinder blocks, 1 for cylinder blocks and cylinder heads as the same line, 6 for cylinder heads and 4 for ancillary cylinder block components and others).

As at 31 December 2023, the Group is building 2 new mechanical processing lines either by renovating the existing production line or investing in a new production line.

## FUTURE PROSPECTS

Recently, due to the growing trend of carbon neutrality and environmental protection, the development of automobiles has been undergoing tremendous transformation. Diversified drive systems, including electric drive, hybrid drive, and hydrogen drive, has emerged from the traditional internal combustion engine system. As technology advances, the percentage of sales of new energy vehicles in the overall automobile market slowly increases. The Group expects the growth rate of new energy vehicles to continue to lead the automobile market. In response to changes in the market environment, the Group has carried out strategic adjustments and a new layout, forming three strategic business segments, namely the traditional internal combustion engine segment, the new energy hybrid segment and the overseas business segment. The Group will still have to carry out enormous expansion work in the future. In order to achieve the above objectives, the Group will adopt the primary strategy of “stability” and the secondary strategy of “speediness”.

## New Energy Vehicles

The new energy vehicle industry has experienced rapid growth, driven by national policy support, record-high fuel prices, and the gradual maturity of new energy vehicle technology. The Group has been focusing on the development of the new energy vehicle industry and the relevant upstream and downstream industries for the purpose of achieving long-term performance growth in the future. Given the emerging trend of lightweight design of new energy vehicles, the Group utilizes new materials for automobile components and optimizes structural design to enhance vehicle performance and reduce energy consumption, in order to achieve lighter weights of vehicles and lower automobile production costs while improving the cost-effectiveness and endurance capabilities of new energy vehicles.

# Management Discussion and Analysis

In order to capture business opportunities arising from the current trends in the industry and increasing demand for lightweight components, the Group has been proactively planning to expand its business from the production of internal combustion engines to the assembly of automobile components based on the needs of its existing customers since last year. The ultimate goal is to enable the Group's production business to cover lightweight components for new energy vehicles, which include battery chassis, chassis components, motor shells, integrated casting vehicle bodies and other products. Currently, the Group has completed the initial transformation of its new energy components segment to offer more competitive products to existing and potential new customers, thereby increasing the production volume and sales volume of new energy products.

The Group will continue to dedicate additional resources in the new energy vehicle industry. During the Year, the Group commenced the upgrading of its new energy vehicle components plant. The upgraded plant has achieved intelligent production with enhanced production efficiency, which establishes a platform for the Group's transformation of new energy vehicle products and a development track thereof, pathing the way for the development of the Group's automobile intelligent equipment manufacturing segment.

Responding to demands from market users, the Group will seek cooperation with domestic automobile technology enterprises in the future to enhance the existing power control system of new energy vehicles, as well as conduct in-depth research and development on the energy recovery system to reduce the power consumption of new energy vehicles and improve their endurance capabilities. Eventually, the research and development outcomes will be implemented to the Group's products and launched in the market, thereby increasing the revenue of the Group.

One of the key focuses for the Group's future development is to realize the production of world-class automobile components in the field of new energy vehicles.

## **Overseas Expansion**

The Group intends to expand into different overseas markets due to uncertainties in the domestic economic landscape and intense competition in the automobile market within the PRC. So far, the Group has continuously received orders of sales from reputable overseas customers, indicating that the products of the Group meet international standards and is recognized by overseas customers.

The Group expects that overseas automobile enterprises will seek to enhance the prevalence of their products and lower the research and development costs of automobile internal combustion cylinder blocks. Therefore, the Group foresees a growing number of overseas automobile enterprises seeking to acquire the technologies from manufacturers of automobile internal combustion cylinder blocks in the PRC and strengthening cooperation with these manufacturers of automobile internal combustion cylinder blocks in the PRC. This will be conducive to the further expansion of the Group's overseas export business.

In respect of overseas markets, the Group has already established an overseas project development team and formulated a detailed implementation plan. In accordance with our expansion strategy, the Group will rationally allocate resources such as manpower, materials and financial resources to actively pursue new overseas customers based on referrals from existing customers. Meanwhile, the Group will seek out overseas partners with complementary strengths to jointly explore overseas markets and achieve mutually beneficial outcomes.

# Management Discussion and Analysis

In the future, the Group will participate in industry exhibitions held overseas to promote the Group's brand, products and capabilities through face-to-face communication and explanation, thereby enhancing brand publicity, brand awareness and reputation, as well as customer loyalty. The overseas project development team will monitor the implementation of the plan with agility and innovation, as well as to continually optimize the plan, and promptly adjust to changes in the overseas market. Ultimately, the Group aims to achieve sustainable growth in certain overseas markets for the Group.

## **Continuing to Enhance Production Capacity**

The Group's business scale and outstanding production capacity will enable us to become one of the leading automobile manufacturers in the PRC. Our production facilities and processes allow us a high degree of flexibility in meeting the diverse needs of our customers. Most of our production lines are adjustable, with the flexibility to add or replace certain production equipment without significant additional installation time or costs. We remain committed to enhancing and upgrading our production processes, so as to be able to produce different models within a single production line, thus reducing equipment costs.

Looking forward, the Group plans to continue to invest capital expenditure for the acquisition of machinery and equipment to adjust the existing production lines or to build new production lines in order to increase the Group's production capacity to fulfil new orders from customers. In addition, the Group plans to continue to implement intelligent manufacturing processes in its production. To achieve this, we have engaged experts to collaborate in the design and construction of intelligent manufacturing processes, streamlining cumbersome and superfluous production processes to enhance efficiency and operational effectiveness, thereby further optimising production processes and expanding production capacity to accommodate the growing demand for our products in the market.

## **Intelligent Operation**

In response to the Industry 4.0 policy and the notice of Made in China 2025 (《中國製造2025》), the Group is embracing the integration of information technology and manufacturing industries. The Group plans to leverage advanced technologies such as the internet of things (IoT), cloud computing, artificial intelligence, virtual reality and robotics, to optimize resources, talent and information in both the virtual and real world, in order to become a "Smart Factory" with high flexibility and high resource utilization efficiency. We believe that the Smart Factory will enable real-time information flow from product development, procurement, manufacturing, distribution and retail to customers, as well as to improve information transparency, so as to improve the overall operational efficiency while reducing operational cost.

## **Development of Corporate Culture**

Corporate culture is the soul of the Company and the driving force of its progress. Guided by our corporate culture, each employee can discover his or her role and value in the Company. In order to instill our corporate culture into every employee's mind, the Group has engaged a professional team to conduct corporate culture trainings and team building activities since June 2023. Through these trainings, our corporate culture will be deeply ingrained into the daily work and lives of each and every employee, thereby enabling them to accomplish their work effectively. Team building activities can also improve employees' job satisfaction and boost corporate competitiveness, ultimately contributing to the sustainable development of the Company. In the future, the Group will continue to organize trainings related to the core principles of the Company and team building activities so that our employees can work together to achieve our corporate goals.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Revenue

Revenue increased by approximately 19.7% from approximately RMB600.5 million for the year ended 31 December 2022 to approximately RMB718.5 million for the year ended 31 December 2023. This increase was primarily attributable to increase in revenue from cylinder blocks for passenger vehicles, commercial vehicles and industrial vehicles as well as increase in revenue from cylinder heads due to increase in sales orders from new customers and increase in demands for these kinds of the products from existing customers.

### Sales of Cylinder Blocks

Segment revenue from sales of cylinder blocks increased by approximately 18.8% from approximately RMB482.5 million for the year ended 31 December 2022 to approximately RMB573.3 million for the year ended 31 December 2023. Meanwhile, the sales volume of cylinder blocks increased by approximately 20.1% from approximately 520,000 units for the year ended 31 December 2022 to approximately 624,000 units for the year ended 31 December 2023. The increase were primarily attributing to the increase in sales orders for the cylinder blocks from new customers and existing customers.

### Sales of Cylinder Heads

Segment revenue from sales of cylinder heads increased by approximately 21.6% from approximately RMB113.8 million for the year ended 31 December 2022 to approximately RMB138.5 million for the year ended 31 December 2023. The sales volume of cylinder heads increased by approximately 12.5% from approximately 194,000 units for the year ended 31 December 2022 to approximately 219,000 units for the year ended 31 December 2023. This increase was primarily due to increase in demand for cylinder heads from customers.

### Sales of Ancillary Cylinder Block Components and Others

Segment revenue from sales of ancillary cylinder block components and others increased by approximately 59.8% from approximately RMB4.2 million for the year ended 31 December 2022 to approximately RMB6.7 million for the year ended 31 December 2023. The sales volume of ancillary cylinder block components and others increased by approximately 234.3% from approximately 104,000 units for the year ended 31 December 2022 to approximately 349,000 units for the year ended 31 December 2023. This increase was primarily attributable to increase in demands from customers.

### Gross Profit and Gross Profit Margin

Gross profit decreased by approximately 10.0% from approximately RMB97.5 million for the year ended 31 December 2022 to approximately RMB87.7 million for the year ended 31 December 2023. Meanwhile, the gross profit margin decreased from 16.2% for the year ended 31 December 2022 to 12.2% for the year ended 31 December 2023, primarily due to a obtaining and securing of further sales orders from prominent automobile manufacturers for the products of cylinder blocks and cylinder heads at lower gross profits which is also a result of the Group's latest strategic objective to increase the Group's share of the market. Details of our Group's latest strategies are set out in the section headed "Business Review" of this annual report.

# Management Discussion and Analysis

## Other Income

Other income decreased by approximately 34.6% from approximately RMB23.2 million for the year ended 31 December 2022 to approximately RMB15.2 million for the year ended 31 December 2023. This decrease was primarily due to a decrease in government grants recognized. The Group recognized government grants of approximately RMB13.6 million for the year ended 31 December 2023, as compared with government grants of approximately RMB22.8 million recognized for the year ended 31 December 2022.

## Selling Expenses

Selling expenses decreased by approximately 1.6% from approximately RMB10.5 million for the year ended 31 December 2022 to approximately RMB10.4 million for the year ended 31 December 2023. This decrease is primarily attributable to a decrease in expenses for marketing activities.

## Administrative Expenses

Administrative expenses increased by approximately 3.0% from approximately RMB72.9 million for the year ended 31 December 2022 to approximately RMB75.1 million for the year ended 31 December 2023. The increase in administrative expenses was attributable to an increase in research and development costs for the year ended 31 December 2023.

## Reversal/(recognition) of impairment losses on trade receivables

The Group recognised reversal of impairment losses on trade receivables of approximately RMB5.3 million for the year ended 31 December 2023, as compared to recognition of an impairment losses on trade receivables of approximately RMB5.8 million for the year ended 31 December 2022. The change is primarily attributable to the Group having made sufficient impairment loss on long aging trade receivables in the past few years.

## Finance Costs

Finance costs increased by approximately 21.3% from approximately RMB8.2 million for the year ended 31 December 2022 to approximately RMB10.0 million for the year ended 31 December 2023, primarily due to an increase in interest expenses for interest-bearing borrowings.

## Income Tax

Income tax expenses decreased by approximately 45.8% from approximately RMB2.7 million for the year ended 31 December 2022 to approximately RMB1.5 million for the year ended 31 December 2023 primarily due to a decrease in operating profits of the Group and reduction in tax effect of withholding tax in connection with the retained profits distribution.

## Profit for the Year

As a result of the foregoing, the profit for the year decreased by approximately 44.8% from approximately RMB20.4 million for the year ended 31 December 2022 to approximately RMB11.3 million for the year ended 31 December 2023. The net profit margin decreased from 3.4% for the year ended 31 December 2022 to 1.6% for year ended 31 December 2023, which was mainly attributable to a decrease in government grants recognized and a decrease in gross profit as explained above.

# Management Discussion and Analysis

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The operation of the Group is primarily financed by cash generated from operating activities and interest-bearing borrowings. As at 31 December 2023 and 2022, cash at bank and on hand, denominated in Renminbi, of the Group amounted to approximately RMB40.6 million and approximately RMB11.6 million, respectively.

The Group monitors its cash flows and cash at bank and on hand balance on a regular basis and seeks to maintain optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business and its various growth strategies. In the future, the Group intends to finance its operations through cash generated from operating activities, as well as bank and other borrowings. Other than normal bank borrowings that the Group obtains from commercial banks and potential debt financing plans, the Group does not expect to have any material external debt financing plan in the near future.

### Trade and Bills Receivables

The net trade receivables and bills receivable increased by approximately 5.2% from approximately RMB257.1 million as at 31 December 2022 to approximately RMB270.5 million as at 31 December 2023. The increase is primarily due to an increase in revenue and a reversal of impairment loss of approximately RMB5.3 million for the year ended 31 December 2023.

### Trade and Bills Payables

The trade and bills payables increased by approximately 12.0% from approximately RMB250.8 million as at 31 December 2022 to approximately RMB280.8 million as at 31 December 2023 primarily due to an increase in purchase of raw materials for production.

### Interest-bearing Borrowings

Interest-bearing borrowings increased from approximately RMB235.4 million as at 31 December 2022 to approximately RMB243.5 million as at 31 December 2023 which were pledged by property, plant and equipment, right-of-use assets and bills receivables of the Group. The aggregate carrying amount of such pledged assets was approximately RMB151.6 million (31 December 2022: approximately RMB109.8 million).

All interest-bearing borrowings as at 31 December 2023 and 31 December 2022 were denominated in Renminbi at fixed or floating interest rate. The following table sets forth the amount of indebtedness of the Group as at the date indicated:

<b>Repayment Schedule</b>	<b>2023 RMB'000</b>	<b>2022 RMB'000</b>
Within 1 year or on demand	<b>101,199</b>	233,269
After 1 year but within 2 years	<b>112,825</b>	2,177
After 2 years but within 5 years	<b>29,500</b>	–
<b>Total</b>	<b>243,524</b>	235,446

# Management Discussion and Analysis

## **Gearing Ratio**

The gearing ratio increased from approximately 23.9% as at 31 December 2022 to approximately 24.7% as at 31 December 2023, primarily attributing to an increase in interest-bearing borrowings of approximately RMB8.1 million for the year ended 31 December 2023 compared with the year ended 31 December 2022.

Gearing ratio equals total debt divided by total equity as at the end of the Year. Total debt includes all interest-bearing borrowings.

## **Capital Expenditure**

The capital expenditure of the Group was approximately RMB101.9 million for the year ended 31 December 2023 as compared with approximately RMB163.2 million for the year ended 31 December 2022. The capital expenditure incurred for the year ended 31 December 2023 was primarily related to the construction of new mechanical processing lines for the new products and purchases of additional equipment and machinery used for improvement of the existing production lines.

## **Capital Commitments**

As at 31 December 2023, the capital commitments of the Group in respect of property, plant and equipment contracted for amounted to approximately RMB22.5 million as compared with approximately RMB20.5 million as at 31 December 2022.

## **Contingent Liabilities**

As at 31 December 2023, the Group did not have any material contingent liabilities or guarantees (31 December 2022: Nil).

## **Fluctuation of Renminbi Exchange Rate and Foreign Exchange Risks**

The majority of the Group's business and all interest-bearing borrowings are denominated and accounted for in Renminbi, except for certain payables to professional parties and administrative expenses in Hong Kong office that are denominated in Hong Kong dollars. Therefore, the Group does not have significant exposure to foreign exchange fluctuation. The Board does not expect the fluctuation of Renminbi exchange rate and other foreign exchange fluctuations will have material impact on the business operations or financial results of the Group. Therefore, the Group has not engaged in any hedging transactions to manage the potential fluctuation in foreign currencies during the year ended 31 December 2023.

## **SIGNIFICANT INVESTMENTS HELD, AND MATERIAL ACQUISITIONS AND DISPOSALS**

The Group had no significant investments held or material acquisitions and disposals of subsidiaries and associated companies for the year ended 31 December 2023 (31 December 2022: Nil).

## **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

Save as disclosed in this annual report, the Group has no other future plans related to the material investments and capital assets.

# Management Discussion and Analysis

## EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2023, the Group had a total of 766 employees (31 December 2022: 816 employees). For the year ended 31 December 2023, the Group has incurred total staff costs of approximately RMB83.5 million (year ended 31 December 2022: RMB75.1 million), representing an increase of approximately 11.1% as compared with this for year ended 31 December 2022.

The executive Directors of the Company agreed to waive part of director's salary for the year ended 31 December 2022 and 2023 and agreed to receive the director's fee of RMB40,000 for the year ended 31 December 2023 (31 December 2022: RMB40,000).

The Group believes its success depends on its employees' provision of consistent, high-quality and reliable services. Most of the Group's employees were working at the manufacturing plant in Shenzhou, PRC. In order to attract, retain and develop the knowledge and skill level of its employees, the Group places a strong emphasis on training for employees and provide continuous training for its staff. In addition, the Group offers a competitive remuneration package to retain elite employees, including basic salary and performance-based monthly and annual bonuses, and reviews the remuneration package annually according to industry benchmark, financial results of the Group as well as the individual performance of employees.

## MAJOR SUBSEQUENT EVENTS

In 2019 and 2020, the Company entered into agreements with a target company (the "**Target Company**") and a vendor (the "**Vendor**"), which is the sole shareholder of the Target Company. Other non-current assets as at 31 December 2023 represents payment for an investment to a Target Company. Pursuant to the Agreements, the Company will acquire the 10.7% equity interests of the Target Company from the Vendor (the "**Acquisition**"). The Target Company is mainly engaged in the design and manufacturing of power systems, braking systems, vehicle spare parts and components. The consideration for the acquisition in relation to the 10.7% equity interest amounting to EUR5,000,000 which was paid by the Group in 2020. By the end of 31 December 2023 and up to the date of this annual report, the Acquisition has not yet been finalised.

Subsequent to the end of the reporting date, the Company initiated certain legal actions towards the Target Company with a view to facilitate the re-negotiation with the Vendor. It is the intention of the Directors to enter into a supplemental agreement with the Vendor to proceed with the Acquisition in 2024. The Directors are of the view that the progress has been made subsequent to the end of the reporting date and anticipate that the re-negotiation could be reached within twelve months after the end of the reporting period.

Save for the above, there are no major subsequent events to 31 December 2023 which would materially affect the Group's operating and financial performance as of the date of this annual report.

# Directors' Report

The Directors are pleased to submit the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

## **PRINCIPAL PLACE OF BUSINESS**

The Company is incorporated and domiciled in Cayman Islands and its headquarter and its principal place of business is at Middle of East Taishan Road, Shenzhou, Hebei Province, the PRC.

## **PRINCIPAL ACTIVITIES**

The Company is an investment holding company. The principal activities of the Group are design, development, manufacture and sale of cylinder blocks and cylinder heads as well as ancillary cylinder block components and others, to automobile manufacturers and engine manufacturers.

## **BUSINESS REVIEW**

The business review of the Group during the year and a discussion on the Group's future business development are provided under the section headed "Management Discussion and Analysis" in this annual report.

## **KEY RISKS AND UNCERTAINTIES**

The main activities of the Group include production and sales of cylinder blocks and cylinder heads as well as ancillary cylinder block components and others. The business operation of the Group is exposed to a variety of risks including operational, financial and market risks. Details of the risks as below:

### **(i) Operational risks**

The top five customers of the Group, which primarily include large automobile manufacturers and engine producers located in the PRC, accounted for approximately 65.7%, of the total revenue for the year ended 31 December 2023. The largest customer of the Group accounted for approximately 21.9% of the total revenue for the year ended 31 December 2023. The largest customer for the year ended 31 December 2023 was an automobile manufacturer. The loss of a small number of our large customers, or the decrease in sales with one or more of these major customers, could have a significant adverse impact on our financial results.

### **(ii) Financial risks**

The major financial risks faced by the Group are interest rate risk, credit risk and liquidity risk. Management of the Group meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. The financial risk management policies are set out in note 25 to the consolidated financial statements.

#### **(a) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings. The borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

**(b) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents and bill receivables is limited because the counterparties are banks and financial institutions with high credit standings, for which the Group considers to be low. The Group does not provide any guarantees which would expose the Group to credit risk.

**(c) Liquidity risk**

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

**(iii) Market risks**

The Group operates in a market characterized by evolving industry standards, frequent new product launches and updates, rapidly-developing technologies, and changing customer demands and expectations. The continuing popularity of our products depends on the ability of the Group to adapt to these rapidly-changing technologies and industry standards as well as our ability to continually innovate in response to evolving customer demands and expectations and intense market competition. Any failure on our part to act effectively in any of these areas may materially and adversely affect our business and operating results.

With the rapid development of relevant technologies and a variety of policies issued by the government of the PRC to support the development of the new energy vehicle industry, new energy vehicles are likely to gain increasing acceptance and popularity in the future and resulting in encroaching on the market share of the traditional gasoline and diesel-powered vehicles. Currently, the traditional fuel vehicles still account for a significant share in the automobile market in the PRC. We would expect any significant decrease in demand for traditional fuel vehicles in the PRC would result in a corresponding decrease in sales of our existing products and the Group's operations and financial result would be materially and adversely affected. During the year, we have commenced the upgrading of new energy vehicle components plant and invested further resource to develop new products to be used for new energy vehicles in order to satisfy the market need.

The Group has put in place a set of internal control and risk management protocols to address various operational, financial and market risks. The risk management protocols and policies set forth procedures to identify, categorize, analyze and mitigate various risks and the relevant reporting hierarchy of risks identified in our operations. The Board has the general power to manage the operations and the overall risks of the Company and is responsible for considering, reviewing and approving any significant business decision involving material risk exposures. After due consideration, the Directors are of the view that our current risk management measures are adequate and effective.

# Directors' Report

## **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 5 to 6 of this annual report.

## **COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS**

During the year ended 31 December 2023, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

## **ENVIRONMENTAL PROTECTION**

The Group upholds the concept of sustainable development and actively promotes environmental awareness among the staff of the Group.

The Company considers the employee, shareholders, government and regulatory authorities, customers, business partners and the public and the community as the key stakeholders, and values highly the expectations and opinions from the stakeholders on environment protection. The Company has commenced multi-dimensional risk analysis, identified issues on the environment, society and importance of governance which are the concerns in our own development and of the relevant stakeholders, and an environmental, social and governance report has been published.

The Company has formulated the compliance procedures to ensure compliance with, in particular, the applicable laws, rules and regulations having material effect on the business operation of the Group. The relevant employees and the relevant operating entities will be informed of any changes in the applicable laws, rules and regulations from time to time.

For further relevant information regarding our performance on environment, society and governance during the year, please refer to the section headed "Environment, Social and Governance Report" in this annual report for details.

## **PROPERTY, PLANT AND EQUIPMENT**

During the year ended 31 December 2023, the Group acquired additional property, plant and equipment of approximately RMB108.9 million (2022: RMB157.9 million). Details of the movements in property, plant and equipment during the year are set out in note 11 to the consolidated financial statements.

## **INTEREST-BEARING BORROWINGS**

Particulars of interest-bearing borrowings of the Group as at 31 December 2023 are set out in note 19 to the consolidated financial statements.

## **RETIREMENT BENEFIT PLAN**

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in a defined contribution retirement benefit plan managed by the PRC local government authorities for the Group's eligible employees in the PRC. In addition, the Group also operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed in Hong Kong. Particulars of these retirement plans are set out in note 6(b) to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's largest and five largest customers for the year ended 31 December 2023 accounted for approximately 21.9% (2022: 26.4%) and approximately 65.7% (2022: 74.3%), respectively, of the Group's total revenue from sales operations.

The aggregate purchases attributable to the Group's largest and five largest suppliers for the year ended 31 December 2023 accounted for approximately 25.6% (2022: 19.2%) and approximately 41.3% (2022: 40.6%), respectively, of the Group's total purchases.

To the best of the Directors' knowledge, none of the Directors or their respective close associates, and none of the existing shareholders who owned more than 5% of the Company's issued share capital, had any interest in any of the Group's five largest customers and suppliers.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Further discussion of the key relationship with employees, customers and suppliers is set out in the section headed "Environment, Social and Governance Report" of this annual report.

## FINAL AND INTERIM DIVIDEND

A final and interim dividend of HK\$1.5 cents and HK\$1.5 cents per ordinary share (2022: Nil and HK\$1.7 cents) is payable on or before 19 July 2024 and was paid on 17 November 2023 respectively. No Shareholder of the Company has waived or agreed to waive any dividends.

## DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**") to allow shareholders of the Company (the "**Shareholders**") to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth.

### Determination Mechanism

Subject to the approval of the Shareholders and requirement of the relevant laws, the Company considers to pay dividends to the Shareholders if the Group is profitable, the market environment is stable and there is no significant investment or commitment made by the Group. The Company has no fixed dividend policy specifying a dividend payout ratio. The declaration, payment and amount of dividends will be subject to the discretion of the Board, taking into consideration the criteria described below. The remaining net profits will be used for Group's development and operations. This dividend policy allows the Company to declare special dividends from time to time.

The Company's ability to pay dividends will depend upon, among other things, the Group's current and future operations, financial position, development planing, prevailing economic environment, contractual restrictions, capital and other reserve requirements, dividends received from the Company's subsidiaries, as well as any other conditions or factors which the Board deems relevant and having regard to the directors' fiduciary duties.

### Approval and Payment Procedures

Details of the procedures on dividend and other payments of the Company have been set out in Articles 133 to 142 of the Company's Articles of Association posted on the website of the Company.

# Directors' Report

## Review and Monitor of this Policy

The form, frequency and amount of dividend payment by the Company are subject to any restrictions under the Cayman Islands laws and the Company's Articles of Association. The Board reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the dividend policy at any time, and this dividend policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time.

## TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 24 to the consolidated financial statements.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on 29 May 2024. Shareholders should refer to details regarding the AGM in the circular of the Company, the notice of the AGM and form of proxy accompanying thereto published on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.hbsgt.com>.

## CLOSURE OF REGISTER OF MEMBERS

For determining the shareholder's entitlement to attend and vote at the AGM to be held on 29 May 2024, the register of members of the Company will be closed from 23 May 2024 to 29 May 2024, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer of shares of the Company, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 pm on 22 May 2024, being the business day before the first day of closure of the register of members.

The Board has resolved on 28 March 2024 to recommend the payment of a final dividend of HK\$1.5 cents per share for the year ended 31 December 2023 (2022: Nil) to Shareholders whose names appear on the register of members of the Company on 20 June 2024. The register of members will be closed from 18 June 2024 to 20 June 2024, both days inclusive, and the proposed final dividend is expected to be paid on or before 19 July 2024. The payment of dividends shall be subject to the approval of the Shareholders at the AGM expected to be held on 29 May 2024. In order to qualify for the proposed dividend, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on 17 June 2024, being the business day before the first day of closure of the register of members.

## RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 24 to the financial statements and in the section headed "Consolidated Statement of Changes in Equity" of this annual report, respectively.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2023, calculated in accordance with the Law of the Cayman Islands, amounted to RMB93.2 million (31 December 2022: RMB104.2 million).

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2023 and up to the date of this annual report, there was no purchase, sale or redemption by the Company or any of its subsidiaries of any listed securities of the Company.

## DIRECTORS

The Directors during the year ended 31 December 2023 and up to the date of this annual report were as follows:

### Executive Directors

Mr. Meng Lianzhou (*Chairman*)  
Mr. Liu Zhanwen  
Mr. Liu Enwang  
Mr. Zhang Yuexuan

### Independent Non-Executive Directors

Mr. Ren Keqiang  
Mr. Yu Chun Kau  
Mr. Wan Ming

The biographical details of the Directors are disclosed in the section headed "Directors and Senior Management" in this annual report.

All the directors of the Company are subject to retirement by rotation as required by the Articles of Association of the Company. In accordance with Article 84(1) of the Articles of Association of the Company, Mr. Meng Lianzhou, Mr. Zhang Yuexuan and Mr. Yu Chun Kau will retire at the AGM of the Company to be held on 29 May 2024 and, being eligible, will offer themselves for re-election at the AGM.

# Directors' Report

## **SERVICE CONTRACTS WITH DIRECTORS**

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 11 December 2017. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice to the other.

Mr. Ren Keqiang and Mr. Yu Chun Kau as the independent non-executive Directors has each entered into an appointment letter with the Company for an initial term of three years commencing from 11 December 2017 which may be terminated by either party by giving not less than three months' written notice. Mr. Wan Ming as an independent non-executive Director has entered into an appointment letter with the Company for the term of three years commencing from 30 July 2021 which may be terminated by either party by giving not less than three months written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other.

Except for the above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## **MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year or subsisted at the end of the year ended 31 December 2023.

## **REMUNERATION OF THE DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS**

Details of the remuneration of the Directors of the Company and five highest paid individuals are set out in notes 8 and 9 to the consolidated financial statements. The emoluments of the Directors and the salaries of the senior management are determined with reference to salaries paid by comparable companies, their respective time commitment, responsibilities and performance of the Group.

## **ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the section headed "Share Option Scheme" in this annual report below, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## **DIRECTORS' COMPETING INTERESTS**

During the year and up to the date of this annual report, none of the Controlling Shareholders, Directors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with the Group's business.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance and protecting the interests of its Shareholders in an open manner. The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions (the “**Code Provisions**”) under Part 2 of the Corporate Governance Code (the “**CG Code**”) set out in Appendix C1 to the Listing Rules. Throughout the year ended 31 December 2023, the Company has fully complied with the Code Provisions, except for the following deviation.

Pursuant to code provision C.2.1 of the CG code, the roles of the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, Mr. Meng Lianzhou currently performs the roles of chairman and chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board regularly reviews the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

Save as disclosed above, the Company has strictly complied with the CG Code during the year ended 31 December 2023. Our Directors will review the Group's corporate governance policies and compliance with the CG Code each financial year.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix C3 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. Upon specific enquiries, all Directors confirmed that they have complied with the relevant provisions of the Model Code throughout the year ended 31 December 2023.

# Directors' Report

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

As at 31 December 2023, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register of directors' and chief executive's interests and short positions required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules were as follows:

Name of Directors	Name of Group member	Capacity/Nature of interest	Number of shares held (Note 1)	Approximate percentage of shareholding
Meng Lianzhou ("Mr. LZ Meng") (Note 2)	The Company	Interest of controlled corporation	411,042,000 Shares (L)	51.38%
	Dragon Rise	Beneficial owner	5,044 shares of US\$1.00 each (L)	50.46%
Liu Zhanwen ("Mr. ZW Liu") (Note 2)	The Company	Interest of controlled corporation	411,042,000 Shares (L)	51.38%
	Dragon Rise	Beneficial owner	1,432 shares of US\$1.00 each (L)	14.32%
Zhang Yuexuan ("Mr. YX Zhang") (Note 2)	The Company	Interest of controlled corporation	411,042,000 Shares (L)	51.38%
	Dragon Rise	Beneficial owner	2,235 shares of US\$1.00 each (L)	22.36%
Liu Enwang ("Mr. EW Liu") (Note 2)	The Company	Interest of controlled corporation	411,042,000 Shares (L)	51.38%
	Dragon Rise	Beneficial owner	1,286 shares of US\$1.00 each (L)	12.86%

Notes:

- (1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Shares.
- (2) These 411,042,000 Shares are held by Dragon Rise, the issued shares of which are owned as to approximately 50.46% by Mr. Meng Lianzhou, approximately 14.32% by Mr. ZW Liu, approximately 22.36% by Mr. YX Zhang and approximately 12.86% by Mr. EW Liu respectively. On 28 August 2017, Mr. Meng Lianzhou, Mr. YX Zhang, Mr. EW Liu and Mr. ZW Liu entered into a concert party agreement to, among others, confirm their acting-in-concert agreement. Under the SFO, each of Mr. Meng Lianzhou, Mr. YX Zhang, Mr. EW Liu and Mr. ZW Liu is taken to be interested in the Shares beneficially owned by Dragon Rise.

## Directors' Report

Save as disclosed above, as at 31 December 2023, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (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 for Securities Transactions by Directors of Listed Issuers.

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

As at 31 December 2023, the interests and short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of SFO and based on the information available were as follows:

Name of Shareholders	Capacity/Nature of interest	Number of shares held (Note 1)	Approximate percentage of shareholding
Dragon Rise	Beneficial owner	411,042,000 Share (L)	51.38%
Ms. Zhao Jingmei (趙敬梅) ("Ms. Zhao") (Note 2)	Interest of spouse	411,042,000 Share (L)	51.38%
Ms. Meng Dongdong (孟冬冬) (Note 3)	Interest of spouse	411,042,000 Share (L)	51.38%
Ms. Xiao Zhiru (肖智茹) (Note 4)	Interest of spouse	411,042,000 Share (L)	51.38%
Ms. Wang Sujuan (王素娟) (Note 5)	Interest of spouse	411,042,000 Share (L)	51.38%
Radiant Path Holdings Limited ("Radiant Path")	Beneficial owner	67,868,000 Share (L)	8.48%
Mr. Wang Shiyong (王士英) ("Mr. Wang") (Note 6)	Interest of controlled corporation	67,868,000 Share (L)	8.48%
Ms. Yin Shujuan (尹淑娟) ("Ms. Yin") (Note 7)	Interest of spouse	67,868,000 Share (L)	8.48%
Great Ally Enterprises Limited ("Great Ally")	Beneficial owner	46,864,000 Share (L)	5.86%
Mr. Zhang Zhanbiao (張占標) ("Mr. ZB Zhang") (Note 8)	Interest of controlled corporation	46,864,000 Share (L)	5.86%
Ms. Zhu Yunchuan (朱雲川) (Note 9)	Interest of spouse	46,864,000 Share (L)	5.86%

# Directors' Report

<b>Name of Shareholders</b>	<b>Capacity/Nature of interest</b>	<b>Number of shares held (Note 1)</b>	<b>Approximate percentage of shareholding</b>
Rosy Raise Limited ("Rosy Raise")	Beneficial owner	46,864,000 Share (L)	5.86%
Ms. Liu Meiling (劉美玲) ("Ms. ML Liu") (Note 10)	Interest of controlled corporation	46,864,000 Share (L)	5.86%
Mr. Li Xunye (李訓業) (Note 11)	Interest of spouse	46,864,000 Share (L)	5.86%

## Notes:

- (1) The letter "L" denotes a long position (as defined under Part XV of the SFO) in the Shares.
- (2) Ms. Zhao is the spouse of Mr. LZ Meng. Under the SFO, she is taken to be interested in the Shares in which Mr. LZ Meng is interested.
- (3) Ms. Meng Dongdong is the spouse of Mr. ZW Liu. Under the SFO, she is taken to be interested in the Shares in which Mr. ZW Liu is interested.
- (4) Ms. Xiao Zhiru is the spouse of Mr. YX Zhang. Under the SFO, she is taken to be interested in the Shares in which Mr. YX Zhang is interested.
- (5) Ms. Wang Sujuan is the spouse of Mr. EW Liu. Under the SFO, she is taken to be interested in the Shares in which Mr. EW Liu is interested.
- (6) These 67,868,000 Shares are beneficially owned by Radiant Path, which is wholly-owned by Mr. Wang. Under the SFO, he is taken to be interested in the Shares beneficially owned by Radiant Path.
- (7) Ms. Yin is the spouse of Mr. Wang. Under the SFO, she is taken to be interested in the Shares in which Mr. Wang is interested.
- (8) These 46,864,000 Shares are beneficially owned by Great Ally, which is wholly-owned by Mr. ZB Zhang. Under the SFO, he is taken to be interested in the Shares beneficially owned by Great Ally.
- (9) Ms. Zhu Yunchuan is the spouse of Mr. ZB Zhang. Under the SFO, she is taken to be interested in the Shares in which Mr. ZB Zhang is interested.
- (10) These 46,864,000 Shares are beneficially owned by Rosy Raise, which is wholly-owned by Ms. ML Liu. Under the SFO, she is taken to be interested in the Shares beneficially owned by Rosy Raise.
- (11) Mr. Li Xunye is the spouse of Ms. ML Liu. Under the SFO, he is taken to be interested in the Shares in which Ms. ML Liu is interested.

Save as disclosed above, as at 31 December 2023, other than the Directors and the chief executives of the Company whose interests are set out in the section headed "Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures" of this annual report, no person had interest or short position in the Shares or underlying Shares of the Company which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## EQUITY-LINKED AGREEMENT

During the year ended 31 December 2023, the Company did not enter into any other equity-linked agreement, nor did any other equity-linked agreement exist during the year ended 31 December 2023 other than the Share Option Scheme as set out in the section headed "Share Option Scheme" of this annual report.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Share Option Scheme**") on 11 December 2017. The purpose of the Share Option Scheme is to provide incentives or rewards to selected participants who contribute to the success of the Group's operations. All directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological support to the Group, shareholders of any member of the Group, advisers or consultants of the Group and any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years commencing on its adoption date with a remaining life until 10 December 2027.

The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the Shares in issue on the Listing Date (the "**General Scheme Limit**"). As at the date of this report, the total number of Shares available for issue under the Share Option Scheme was 80,000,000 Shares, representing 10% of the issued share capital of the Company. The Company may renew the General Scheme Limit with Shareholders' approval provided that each such renewal may not exceed 10% of the Shares in issue as at the date of the Shareholders' approval.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

The total number of Shares which could be allotted and issued upon exercise of the options that remain available to be granted under the General Scheme Limit as at the beginning and end of the year under review are as below:

	As at 1 January 2023	As at 31 December 2023
Number of options granted	–	–
Number of Shares which could be allotted and issued upon exercise of the options that remain available to be granted under the existing General Scheme Limit	80,000,000	80,000,000

# Directors' Report

Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being.

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option, subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of: (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

No share options have been granted, exercised or cancelled by the Company under the Share Option Scheme since its adoption and up to the date of this report.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, there was a sufficient public float of the issued shares of the Company as required under the Listing Rule.

## **INDEMNITY OF DIRECTORS**

Under the Articles of Association of the Company, a permitted indemnity provision (as defined in section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) for the benefit of the Directors of the Company is currently in force and was in force throughout this year, pursuant to which the Company shall indemnify any Director against any liability, loss suffered and expenses incurred by the Director in connection with any legal proceedings in which he is involved by reason of being a Director, except in any case where the matter in respect of which indemnification is sought was caused by the fraud or dishonesty of the Directors. The Company has maintained insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors arising out of corporate activities. During the year, no claims were made against the Directors.

## **DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE**

Save as disclosed in note 27 to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director or his connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year under 31 December 2023 or at any time during the year ended 31 December 2023.

## **CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Save as disclosed in the paragraph headed "Directors' Report – Service Contracts with Directors" in this annual report and note 8 to the consolidated financial statements, no Controlling Shareholder or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries during the year ended 31 December 2023.

## **CONFIRMATION OF INDEPENDENCE**

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

## **BOARD INDEPENDENCE**

All the Directors have full and timely access to the information of the Company (including but not limited to financial reports, audit results and other relevant data) and are equipped with necessary professional advice in their decision-making process, the Board may, in appropriate circumstances, seek independent professional advice at the Company's expenses to assist them. Board members are also encouraged to seek inputs from other stakeholders in appropriate circumstances to ensure that different perspectives are taken into account in the decision-making process. There are formal or informal channels in place to ensure that independent views and inputs are available to the Board. During the year ended 31 December 2023, the Board has reviewed the mechanisms for ensuring independent views and considered that the implementation of the mechanisms was effective.

## **CONNECTED TRANSACTIONS**

During the year ended 31 December 2023, the Group did not enter into or conduct any transactions which need to be disclosed as connected transactions or continuing connected transactions pursuant to Chapter 14A of the Listing Rules.

## **RELATED PARTY TRANSACTIONS**

Details of related party transactions of the Group are set out in note 27 to the consolidated financial statements. None of the related party transactions disclosed in note 27 to the consolidated financial statements constitute connected transactions or continuing connected transactions (as defined in Chapter 14A of the Listing Rules) of the Company for the year ended 31 December 2023 that are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

# Directors' Report

## DEED OF NON-COMPETITION

The Company has received the written confirmation from each of Dragon Rise, Mr. LZ Meng, Mr. ZW Liu, Mr. YX Zhang and Mr. EW Liu (the “**Covenantors**”) in respect of the compliance with the terms of the non-compete undertaking (the “**Non-compete Undertaking**”), entered into between the Covenantors and the Company as set out in the section headed “Relationship with our Controlling Shareholders – Non-compete Undertaking” of the prospectus of the Company dated 19 December 2017 for the year ended 31 December 2023. Each of the Covenantors has confirmed and declared that he/it had strictly complied with the Non-compete Undertaking without any breach thereof. All the independent non-executive Directors had reviewed the matters relating to the enforcement of the Non-compete Undertaking and consider that the terms of the Non-compete Undertaking have been complied with by each of the Covenantors for the year ended 31 December 2023.

## AUDITOR

The consolidated financial statements for the financial year ended 31 December 2023 have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment at the AGM.

## PUBLICATION OF THE ANNUAL REPORT

This annual report is published on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.hbsgt.com>.

On behalf of the Board  
**Ruifeng Power Group Company Limited**  
**Meng Lianzhou**  
*Chairman*

Shenzhen, the PRC, 28 March 2024

# Corporate Governance Report

The Company recognises the importance of corporate governance and is committed to maintaining a high standard of corporate governance with a strong emphasis on transparency, accountability, integrity and independence. The Board believes that good corporate governance practices are fundamental to the Company's development and essential for safeguarding shareholders' interests. The Company is continued to improving this practice and maintaining an ethical corporate culture.

The Board has applied the principles and complied with the code provisions (the “**Code Provisions**”) of the Corporate Governance Code (the “**CG Code**”) set out in Appendix C1 to the Listing Rules and has adopted the CG Code as its own corporate governance practices. Throughout the year ended 31 December 2023, the Company has fully complied with the Code Provisions, except for the following deviations.

Pursuant to Code Provision C.2.1 of the CG Code, the role of the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, Mr. Meng Lianzhou currently performs the roles of chairman and chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable our Company to make and implement decisions promptly and effectively. The Board regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

Save as disclosed above, the Company has strictly complied with the CG Code during the year ended 31 December 2023. Our Directors will review the Group's corporate governance policies and compliance with the CG Code each financial year.

## **Board of Directors**

The Board's primary role is to enhance the Company's shareholders value. The directors, individually and collectively, must act in good faith in best interest of the Company to achieve sound returns for its shareholders. The Chairman of the Board provides leadership for the Board and he is responsible for the overall management of the Board and monitoring the Group's business strategies.

The Board has established three Board committees, being the audit committee (the “**Audit Committee**”), the remuneration committee (the “**Remuneration Committee**”), and the nomination committee (the “**Nomination Committee**”) (each a “**Board Committee**” and collectively the “**Board Committees**”), to oversee different areas of the Company's affairs. The Board currently has seven Directors comprising four executive Directors and three independent non-executive Directors. The composition of the Board during the year ended 31 December 2023 and up to date of this annual report is as follow:

### **Executive Directors:**

Mr. Meng Lianzhou (*Chairman and Chief Executive Officer*)

Mr. Liu Zhanwen

Mr. Liu Enwang

Mr. Zhang Yuexuan

# Corporate Governance Report

## **Independent Non-executive Directors:**

Mr. Ren Keqiang  
Mr. Yu Chun Kau  
Mr. Wan Ming

Their biographical details are set out in the section headed “Directors and Senior Management” in this annual report. A list of the Directors identifying their role and function and whether they are independent non-executive Directors are available on the Company’s website.

There is no financial, business, family or other material/relevant relationships among the members of the Board.

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 11 December 2017. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months’ written notice to the other.

Mr. Ren Keqiang and Mr. Yu Chun Kau as the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years commencing from 11 December 2017 which may be terminated by either party by giving not less than three months’ written notice. Mr. Wan Ming as an independent non-executive Director has entered into an appointment letter with the Company for a term of three years commencing from 30 July 2021 which may be terminated by either party by giving not less than three months written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months’ written notice to the other.

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

The functions and duties of the Board include but are not limited to: convening Shareholders’ general meetings and reporting the Board’s work at the Shareholders’ general meetings; implementing the resolutions passed at the Shareholders’ general meetings; provides direction to the management by laying down strategies and overseeing their implementation; monitors the Group’s operational and financial performance to ensures that sound internal control and risk management systems are in place; and exercising other power, functions and duties as conferred by the Company’s Articles of Association.

The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Company, and the training and continuous professional development of Directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

## **Directors’ Continuous Training and Professional Development**

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with reasonable care, skill and diligence, in pursuit of the development of the Company. Each of the newly appointed Director receives an introduction to ensure that he/she has a proper understanding of the business and operations of the Company and that he/she is fully aware of his duties and responsibilities as a director under applicable rules and requirements. The Company has from time to time provided information and updates to the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements so as to ensure the Directors are in compliance with good corporate governance practices.

# Corporate Governance Report

During the year ended 31 December 2023, to assist directors' continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. The Directors have participated in continuous professional development programmes such as external seminars organized by qualified professionals. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements were provided to each of the Directors during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices.

The training records of individual Directors in the continuous professional during the year ended 31 December 2023 have been provided to the Company and are summarised as follows:

<b>Name of Director</b>	<b>Attending in-house training organized by professional organizations</b>	<b>Reading materials updating on new rules and regulations</b>
<b>Executive Directors</b>		
Mr. Meng Lianzhou	✓	✓
Mr. Liu Zhanwen	✓	✓
Mr. Liu Enwang	✓	✓
Mr. Zhang Yuexuan	✓	✓
<b>Independent Non-executive Directors</b>		
Mr. Ren Keqiang	✓	✓
Mr. Yu Chun Kau	✓	✓
Mr. Wan Ming	✓	✓

## **Independence of Independent Non-Executive Directors**

The role of the independent non-executive Directors who possess various industry expertise is to provide independent and objective opinions to the Board, giving adequate control and balances for the Company to protect the overall interests of the Shareholders and the Company.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

Each independent non-executive Director has submitted annual confirmation of his independence to the Company. Based on the contents of such confirmations and taking into account the factors set out in Rule 3.13 of the Listing Rules, the Company considers that all of the independent non-executive Directors are independent.

# Corporate Governance Report

## **Board Committees**

The Board has established three committees to oversee different aspect of the Company's affairs, including the Audit Committee, Nomination Committee, and Remuneration Committee. These Board Committees has been structured to include a majority of independent non-executive director as members in order to ensure that all relevant issues are reviewed independently and objectively. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. Their terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are respectively available on the websites of the Stock Exchange and the Company.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or professional advice if considered necessary.

## **Audit Committee**

The Company has established an audit committee with written terms of reference in compliance with Code D.3 of the Corporate Governance Code as set out in Appendix C1 to the Listing Rules. The primary duties of our Audit Committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting, oversee the internal control and risk management systems of our Company.

At present, the Audit Committee comprises Mr. Ren Keqiang, Mr. Yu Chun Kau and Mr. Wan Ming, all being independent non-executive Directors. Mr. Yu Chun Kau is the chairman of our Audit Committee.

The Audit Committee held two meetings during the year. The Audit Committee has reviewed, among other things, the financial statements of the Company for the six months ended 30 June 2023 and the year ended 31 December 2023, including the accounting principles and practices adopted by the Company, report prepared by the external auditors covering major findings in the course of the audit, the risk management and internal control systems and the overall effectiveness of the Company's internal audit function and the adequacy of resources, qualifications and experience of the staff and the accounting and financial reporting matters, and selection and appointment of the external auditors. The Audit Committee considered that the annual report for 2023 and financial statements of the Company have complied with the Listing Rules and the applicable accounting standards and the Company has made appropriate disclosure thereof.

## **Remuneration Committee**

The Company has established a remuneration committee with written terms of reference in compliance with Code E.1 of the Corporate Governance Code as set out in Appendix C1 to the Listing Rules. The primary functions of our Remuneration Committee are to make recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review performance based remuneration and review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules, to ensure that their compensation arrangement are determined in accordance with relevant contractual terms.

At present, the Remuneration Committee comprises one executive Director, namely Mr. Meng Lianzhou, and two independent non-executive Directors namely Mr. Ren Keqiang and Mr. Yu Chun Kau. Mr. Ren Keqiang is the chairman of our Remuneration Committee.

# Corporate Governance Report

The Remuneration Committee held one meeting during the year. The Remuneration Committee has reviewed the remuneration policy and structure relating to the Directors and senior management of the Company (include assessing performance of executive Directors, approving the terms of executive Directors' service contracts and making recommendations on employee benefit arrangements). It was satisfied with the remuneration packages of the Directors and senior management, and recommended the same to the Board for approval. The Remuneration Committee has adopted the first model described in Code Provision E.1.2(c) (i.e. to determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management).

## Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on the remuneration of the Directors and senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2023 are set out in note 8 to the consolidated financial statements.

The biographies of the senior management are disclosed in the section headed "Directors and Senior Management" in this annual report. The remuneration of the senior management by band for the year ended 31 December 2023 is as follows:

<b>Remuneration band (RMB)</b>	<b>Number of individuals</b>
0 – 1,000,000	5
Above 1,000,000	–

## Nomination Committee

The Company has established a nomination committee with written terms of reference in compliance with Code B.3 of the Corporate Governance Code as set out in Appendix C1 to the Listing Rules. The primary functions of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board and to make recommendations to the Board on any proposed changes to the Board composition; to assess the independence of independent non-executive Directors; to identify individuals suitably qualified as potential Board members and to select or make recommendations to the Board regarding candidates to fill vacancies on our Board; and to make recommendations to the Board on the appointment and re-appointment of Directors and succession planning of the Directors.

At present, the Nomination Committee comprises one executive Director, namely Mr. Meng Lianzhou, and two independent non-executive Directors namely Mr. Yu Chun Kau and Mr. Wan Ming. Mr. Wan Ming is the chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year. The Nomination Committee has reviewed the policy for the nomination of Directors, the structure, size and composition of the Board and assessed independence of the independent non-executive Directors.

# Corporate Governance Report

## **Nomination Policy**

The Board has adopted a nomination policy (the “**Nomination Policy**”) which sets out the selection criteria and nomination procedures to identify, select and recommend candidates for Directors and aims to sure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company.

### **1. Selection Criteria**

- (a) The Nomination Committee is authorised by the Board to determine the nomination of directors, the procedure, process and criteria to be adopted for the purposes of selecting and recommending candidates for directorship, and shall make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman and the chief executive officer.
- (b) In assessing the suitability of a proposed candidate, the Nomination Committee may make reference to certain criteria such as the Company’s need, the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in automobile, automobile engine and automobile engine spare part industry and/or other professional areas, the amount of time and effort that the candidate will devote to discharge his/her duties and responsibilities and, in case of independent non-executive director, the independence requirements set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time), and seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.
- (c) Where necessary, the Nomination Committee should seek independent professional advice to access a wider range of potential candidates.
- (d) Proposed candidate will be asked to submit the necessary personal information, together with his/her written consent to be appointed as a director and to the public disclosure of his/her personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a director.
- (e) Non-executive director will receive a formal letter of appointment on his/her appointment to the Board, setting out clearly the expectations of him/her in terms of time commitment, committee service and involvement outside board meetings.

### **2. Nomination Procedures**

The secretary of the Nomination Committee shall invite nominations of candidates from Board members if any, for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members.

# Corporate Governance Report

Any director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election at such meeting, and any director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

The Board may revoke or terminate any of the appointment of a managing director, joint managing director or deputy managing director in accordance with Article 87 of the articles of association of the Company.

A shareholder of the Company can serve a notice to the Company within the lodgment period of its intention to propose a resolution to elect a certain person as a director. Details of the procedure has been set out in the "Procedure for Shareholders to Propose a Person for Election as a Director" posted on the website of the Company.

### **3. Review and Monitor of this Policy**

- (a) The Nomination Committee shall review the structure, size, composition (including skills, knowledge and experience) of the Board on a regular basis at least annually and diversity of the Board to ensure that it has a balance of expertise, skills and experience and diversity of perspective appropriate to the requirements for the business of the Company.
- (b) The Nomination Committee shall keep under review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued ability of the Company to complete effectively in the marketplace.
- (c) The Nomination Committee shall keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates.

### **Corporate Governance Functions**

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

The Board has reviewed and monitored the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, and the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

### **Attendance Record of Directors**

During the year ended 31 December 2023, the Company convened two general meetings, four Board meetings, two meetings of the Audit Committee, one meeting of the Remuneration Committee and one meeting of the Nomination Committee.

# Corporate Governance Report

The attendance record of each of the current Directors at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2023 is set out in the table below. The Directors did not authorise any alternate Director to attend Board or Board Committee meetings.

Name of Directors	Attendance/Number of Meetings				General Meeting
	Audit Committee	Remuneration Committee	Nomination Committee	Board	
Mr. Meng Lianzhou	N/A <sup>(Note)</sup>	1/1	1/1	4/4	2/2
Mr. Liu Zhanwen	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	4/4	2/2
Mr. Zhang Yuexuan	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	4/4	2/2
Mr. Liu Enwang	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	N/A <sup>(Note)</sup>	4/4	2/2
Mr. Ren Keqiang	2/2	1/1	N/A <sup>(Note)</sup>	4/4	2/2
Mr. Yu Chun Kau	2/2	1/1	1/1	4/4	2/2
Mr. Wan Ming	2/2	N/A <sup>(Note)</sup>	1/1	4/4	2/2

Note: The Director was present at the relevant Board Committee meeting as a non-voting participant.

## Board Meetings

Meetings of the Board of Directors shall be held at least four times each year when required to discuss significant events and issues. The meetings shall be convened by the chairman of the Board of Directors. If a Director is unable to attend a Board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorisation. Directors attending Board meetings on behalf of other directors shall exercise their power as directors within their scope of authorisation. If a Director fails to attend a Board meeting and does not appoint an attorney to attend, the Director is deemed to have waived his rights to vote at that meeting. Each Director shall have one vote. Questions arising at any meetings of the Board of Directors shall be determined by a majority of votes. Where the numbers of votes cast for and against a resolution are equal, the chairman shall have the right to cast an additional vote.

## Board Diversity Policy

The Board adopted a board diversity policy (the “**Board Diversity Policy**”) which aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy.

# Corporate Governance Report

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

- at least 1/3 of the members of the Board shall be independent non-executive directors;
- at least one of the independent non-executive directors of the Board shall have obtained accounting or relevant financial management professional qualifications; and
- at least 50% of the members of the Board shall have 7 years or more of experience in the industry he is specialised in.

The Nomination Committee considered that an appropriate balance of diversity perspective of the Board is maintained during the year ended 31 December 2023. Based on the review by the Nomination Committee, the Nomination Committee considers that the Company has achieved the measurable objectives set for implementing the Board Diversity Policy for the year ended 31 December 2023.

While the Board recognises that gender diversity at the Board can be improved, given its current composition of single gender Directors, the principle of Director's appointments will be based on meritocracy, and candidates will be considered against objective criteria, taking into account factors based on the own business model and special needs from time to time, and with due regard to the benefits of diversity on the Board and also the needs of the Board without focusing on a single diversity aspect.

The Company values gender diversity and will continue to take steps to promote gender diversity at all levels of the Company, including but without limitation at the Board and senior management. In recognising the importance of gender diversity and to develop a pipeline of potential successors to the Board to achieve gender diversity, the Company is committed to providing career development opportunities for female staff and to engaging more resources in training the female staff with an aim to promoting them to the position of senior management or Director. The Company will also continue to recruit female talents based on the recruitment policy and with reference to the Board Diversity Policy as a whole.

To ensure gender diversity of the Board, the Nomination Committee will continue and from time to time identify suitable candidates of both genders to the Board to be appointed as Directors. To allow the Shareholders to be able to judge whether board diversity is achieved, we will provide the Shareholders with detailed information of each candidate for appointment or re-election to the Board through announcements and circulars published prior to general meetings of the Company.

The Nomination Committee will review the Board Diversity Policy, assess its effectiveness and, where necessary, make any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

The Nomination Committee considered that an appropriate balance of diversity perspective of the Board is maintained during the year ended 31 December 2023. Based on the review by the Nomination Committee, the Board considered that the Company has achieved the measurable objectives set for implementing the board diversity policy for the year ended 31 December 2023. The Company will appoint at least a director of a different gender on the board no later than 31 December 2024 in accordance with the relevant requirements of the Listing Rules.

# Corporate Governance Report

## **Workforce Diversity**

The Company also considers relevant factors in the recruitment and selection of key management and other personnel, and strives to maintain gender diversity. As at 31 December 2023, male and female staff accounted for 79.4% and 20.6% of all staff (including the senior management and directors) of the Company, respectively. The Company will continue to maintain gender diversity among all its staff as the goal and review its policies on employee recruitment and management in a timely manner in accordance with the Company's business development and needs.

## **Model Code for Securities Transactions by Directors**

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 to the Listing Rules. Upon specific enquiry, all of the Directors confirmed that they have complied with the relevant provisions set out in the Model Code and the code of conduct of the Company governing Directors' securities transactions throughout the year ended 31 December 2023.

## **Company Secretary**

Mr. Wong Ka Wai resigned on 30 June 2023 due to the need to devote more time for his other commitments. Mr. Lee Yiu Man was appointed as the Company Secretary on 30 June 2023. According to Rule 3.29 of the Listing Rules, an issuer's company secretary must take no less than 15 hours of relevant professional training in each financial year, while Mr. Lee has taken not less than 15 hours of relevant professional training during the year ended 31 December 2023.

All Directors have access to the advices and services of Mr. Lee on corporate governance and board procedures.

The biographical details of Mr. Lee are set out under the section headed "Directors and Senior Management" in this annual report.

## **Financial Reporting**

The Board acknowledges its responsibility to prepare the consolidated financial statements of the Group which give a true and fair view of the Company's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Company has adequate resources to continue in business for the foreseeable future and is not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

# Corporate Governance Report

## **Internal Controls and Risk Management**

The Board acknowledges its responsibility for the risk-management and internal control system, with the internal audit department and staffing in place, and reviewing their effectiveness and adequacy. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objective, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board have put in place a set of internal control and risk management protocols to address various operational, financial, legal, market and ESG risks identified in relation to our operations, including but not limited to procurement and sales management, inventory management, research and development management, credit risk, liquidity risk, foreign exchange risk, human resources risk management, and various other financial and operational control and monitoring procedures. The risk management protocols and policies set forth procedures to identify, categorize, analyze and mitigate various risks and the relevant reporting hierarchy of risks identified in our operations. The Board has the general power to manage our operations and is responsible for the risk management and internal control systems and reviewing their effectiveness. After due consideration, Directors are of the view that our current risk management and internal control systems are adequate and effective.

The management of the Company has established a set of comprehensive structure, standards and procedures in areas of operational, financial, legal and market risks for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records and a sound cash management system; and for ensuring the reliability of financial information to achieve a satisfactory level of assurance against the likelihood of the occurrence of fraud and errors. The Board reviews the risk management and internal control systems annually to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit, financial reporting functions, as well as those relating to the issuer's ESG performance and reporting.

Also, the Company has an internal audit function to carry out the analysis and independent appraisal of the effectiveness of the Group's risk management, internal control systems and perform an internal audit procedure which covered certain material controls, including the financial, operational and compliance controls as well as risk management functions during the year ended 31 December 2023. The assessment report was reviewed by the Audit Committee and the Board. The Board has conducted a review of, and is satisfied with the adequacy and effectiveness of the risk management and internal control systems and the internal audit function for the year ended 31 December 2023. The Directors will continue to review the need for setting up an internal audit function should the need arise.

The Company has developed a policy for handling and dissemination of inside information. The policy provides a general guide to the Company's Directors, senior management, officers and relevant employees in handling confidential information and monitoring information disclosure.

# Corporate Governance Report

## External Auditor

KPMG was re-appointed as the external auditors of the Company by the shareholders at the annual general meeting of the Company held on 30 May 2023 until the next annual general meeting. In order to maintain their independence, objectivity and effectiveness in performing the audit services, the Audit Committee pre-approved all audit services and discussed with KPMG the nature and scope of the audit services. KPMG is primarily responsible for providing audit services in connection with the annual consolidated financial statements.

For the year ended 31 December 2023, the fees payable to KPMG in respect of its annual audit services and non-audit services related to reviewing ESG report provided to the Company was RMB1,950,000 and RMB100,000 respectively.

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor during the year.

## Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

### **1. Convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings**

Extraordinary general meetings may be convened by directors on requisition of one or more shareholders holding, at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the Company Secretary by mail to Room 4109, 41/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, to require an extraordinary general meeting to be called by the Directors for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### **2. Right to Put Forward Proposals at General Meeting**

Shareholder(s), individually or collectively holding 3% or more of the shares carrying the right to vote at the meeting shall have the right to make proposals to the Company and may submit interim proposals and submit them to the convenor in written form 10 days before the convening of the general meetings. The convenor shall, within 2 days after receipt of the proposal, issue a supplementary notice about the said meeting, to publicize the contents of provisional proposals.

### **3. Putting Forward Enquiries to the Board**

For putting forward any enquiries to the Board of the Company, shareholders and investors of the Company may send written enquiries to the Company by mail to Room 4109, 41/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong or email enquiry to [ir@hbsgt.com](mailto:ir@hbsgt.com).

# Corporate Governance Report

## **Investor Relations**

The Company endeavours to maintain an on-going dialogue with Shareholders.

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual and interim reports, notices, announcements and circulars and the Company's website at [www.hbsgt.com](http://www.hbsgt.com) providing the Shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, with a view to enabling the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and the investment community to engage actively with the Company. The Board has reviewed the shareholder communication policy and confirmed its effectiveness.

## **Constitutional Documents**

With a view to complying with the applicable laws and procedures of the Cayman Islands and the Listing Rules and making certain housekeeping amendments, the Company has adopted the second amended and stated Memorandum of Association and Association of Articles of the Company by special resolution passed on 30 May 2023. Details of the amendments were disclosed in the circular of the Company dated 26 April 2023. Save for the above there was no change in the Memorandum of Association and Association of Articles of the Company during the year ended 31 December 2023.

The second amended and restated Memorandum of Association and Articles of Association of the Company is available on the websites of the Stock Exchange and the Company.

# Environment, Social and Governance Report

## ABOUT THIS REPORT

This is the Environmental, Social and Governance (“**ESG**”) Report (the “**ESG Report**”) of Ruifeng Power Group Company Limited (the “**Company**” and, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2023, which outlines the principles and sustainability philosophy of the Group in fulfilling its corporate social responsibility (“**CSR**”) and illustrates the relationship between the Group and its major stakeholders with a vision and commitments for its CSR. The Board and all directors of the Company assure that this ESG Report is free from any false record, misleading representation or material omission, and are individually and collectively responsible for the truthfulness, accuracy and completeness of the content set out herein.

### Scope of the ESG Report and Reporting Boundary

The Group is principally engaged in the design, development, manufacture and sale of cylinder blocks, cylinder heads and ancillary cylinder block components and others. The data disclosed in the ESG Report was collected from the main office and the production plants of Hebei Ruifeng in the PRC. The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the ESG Report.

This ESG Report covered all major subsidiaries of the Group which are set out in note 14 to the financial statements for the year ended 31 December 2023. The majority of the Group’s revenue derives from one operating PRC subsidiary, which is Hebei Ruifeng Technology Co., Ltd (“**Hebei Ruifeng**”).

During the year ended 31 December 2023 (the “**Reporting Period**”), the Group continued to improve its performance in fulfilling its CSR through diversified measures. The ESG Report provides details of the Group’s policies and practices in two aspects namely environmental and social for the Reporting Period.

### Basis of Preparation

The Group has prepared the ESG Report pursuant to the Environmental, Social and Governance Reporting Guide (the “**ESG Reporting Guide**”) set out in Appendix C2 to the Listing Rules. The ESG Report adheres to the reporting principles of the ESG Reporting Guide, and complies with the “Mandatory Disclosure Requirements” and “Comply or Explain” provisions therein.

### Reporting Principles

This report has been prepared based on the following principles:

**Materiality:** The Group identifies the ESG issues that may have significant impacts on investors and other stakeholders and discloses them in this ESG Report.

**Quantitative:** The Group makes quantitative disclosure of the key performance indicators with historical data in the areas of “environmental” and “social” according to the requirements of the “Key Performance Indicators” in the Environmental, Social and Governance Reporting Guide set out in Appendix C2 to the Listing Rules, makes quantitative disclosure of forward-looking information such as targets as much as possible, and will gradually improve the statistical process to achieve full disclosure in the future.

# Environment, Social and Governance Report

**Balance:** This ESG Report objectively, fairly and truly discloses the Group's work performance and practice in environmental and social matters in 2023, and discloses the problems encountered and improvement measures in a responsible manner.

**Consistency:** The Group adopts a consistent methodology for the assessment of the key performance indicators. In this ESG Report, we have maintained the same statistical method for the information as disclosed in the previous year's report. For the information disclosed for the first time, the Group will adopt a consistent statistical method for ESG information disclosure in subsequent years, in order to facilitate meaningful comparisons from year to year.

## Access of the ESG Report

The electronic version of this ESG Report is available on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.hbsgt.com](http://www.hbsgt.com)).

## Contact Information

We highly appreciate and welcome your feedback and comment on the ESG Report which may help us better safeguard stakeholder's interests and implement our sustainability initiatives. For any enquires or recommendations, please contact the Group by mail to Room 4109, 41/F., China Resources Building, 26 Harbour Road, Wanchai, Hong Kong or email enquiry to [ir@hbsgt.com](mailto:ir@hbsgt.com).

## STATEMENT BY THE BOARD

The Group recognises the importance of sound corporate governance and risk management processes, including the management of ESG matters that are crucial to the sustainability of the Group. The Board, as the highest responsible and decision-making body for ESG matters, assumes full responsibility for the Group's ESG strategy and reporting. The Board conducts regular reviews on the completion of the targets and reassess the strategies and action plans for achieving the annual targets.

The Board is responsible for monitoring the Group's ESG work, identifying and managing ESG-related opportunities and risks, as well as determining material ESG issues for the year. Based on the external environment and the Group's development strategy, the Group identified several key ESG issues, including but not limited to employees' rights and training as well as customer responsibility, which enables us to clarify our work priorities. The Group also strives to promote sustainable development by giving back to the society with practical actions. In the future, the Group will continue to adjust the strategy and promotion method of sustainability management according to the expectations of stakeholders and our actual operation, so as to continuously improve the level of sustainability.

This ESG Report disclosed details of the progress and effectiveness of the Group's ESG work in 2023. The Board and all directors of the Company assure that this ESG Report is free from any false record, misleading representation or material omission, and are individually and collectively responsible for the truthfulness, accuracy and completeness of the content set out herein.

# Environment, Social and Governance Report

## I. ESG RESPONSIBILITY MANAGEMENT

### The Group's ESG Strategy

Ensuring the health and safety of our customers and employees is a due responsibility of our business activities and an important cornerstone of our sustainable development. We will insist on equality between employees and employers, pay attention to staff training and development, and emphasize the welfare of our employees and the rights of our customers, so as to contribute to the healthy and orderly operation of the socialist market economy and promote sustainable development.

Creating a harmonious and beautiful environment is the embodiment of an enterprise's social responsibility. Environmental protection is also one of the Group's key missions. We are committed to minimizing the impact of our production activities on the environment by adopting environmentally friendly technologies and materials to reduce energy consumption and emissions. At the same time, we also actively participate in environmental protection projects to promote green and low-carbon development, helping to realize a harmonious coexistence between people and their environment.

It is an undeniable responsibility of an enterprise to shoulder social responsibility and contribute to the society in the process of enterprise development. The Group always adheres to the social responsibility ideal of "Giving back to the society what we received from the society", and actively participates in public welfare and charitable undertakings.

The Group continues to make progress in terms of sustainability, actively integrating environmental and social responsibility into its internal management system to build an enterprise that engages in environmental protection and social harmony. We emphasize the relationship among our development, environmental protection, and social benefits, helping to realize a win-win situation for the enterprise's development and ecological and environmental protection in an orderly manner, and, within the scope of its capability, fulfills corporate responsibility and enhances its ESG performance by conscientiously assuming environmental and social responsibility.

### The Group's ESG Governance Structure

The Group has established an ESG governance structure which includes the following:

The Board is the highest responsible and decision-making body for ESG matters and is fully accountable for the Group's ESG strategy and reporting. The Board is responsible for formulating the Group's sustainable development strategy, identifying sustainable development objectives and overseeing ESG-related matters, and plays a leading role in the Group's ESG efforts. The Board conducts regular reviews on the achievement of its ESG targets and reviews the strategies and action plans for the achievement of the annual ESG targets. The Board is also responsible for overseeing the Group's stakeholder surveys, identifying and managing ESG opportunities and risks, and identifying material ESG issues for the year.

Among the key executive departments, the safety and environmental protection department is responsible for employee safety and environmental protection, ensuring that the Company's production and operations comply with safety and environmental standards. The general management department is responsible for shaping our community image and organizing employee training to improve the overall employee quality and our business standards.

# Environment, Social and Governance Report

## Stakeholders' Communication

The Group attaches great importance to communication with stakeholders. The Group has identified the key stakeholders, including shareholders, government and regulatory authorities, employees, customers business partners, the public and the community. We have been responding to the expectations of our key stakeholders through multiple channels of communication as follows.

Major Stakeholders	Communication Channels	Expectations
Shareholders	<ul style="list-style-type: none"> <li>• Annual general meeting and other shareholder meetings</li> <li>• Annual report and interim report</li> <li>• Announcements and circulars</li> <li>• The Company's website</li> <li>• Meeting with investors</li> </ul>	<ul style="list-style-type: none"> <li>• Return on investment</li> <li>• Information disclosure and transparency</li> <li>• Protection of shareholders' rights and fair treatment of shareholders</li> </ul>
Government and regulatory authorities	<ul style="list-style-type: none"> <li>• Policy guidance</li> <li>• Response to public consultation in writing</li> <li>• Meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Compliance with laws and regulations</li> <li>• Implementation of relevant regulatory policies, such as production safety, environmental protection and social responsibility</li> <li>• Proper tax payment</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Regular meetings and training</li> <li>• Performance assessment</li> <li>• Staff newsletters and broadcasts</li> <li>• Labour union</li> </ul>	<ul style="list-style-type: none"> <li>• Salary and welfare</li> <li>• Safe working environment</li> <li>• Fair career development opportunities</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Regular meetings</li> <li>• Site visit</li> <li>• Exhibition</li> <li>• Email</li> </ul>	<ul style="list-style-type: none"> <li>• High quality products and services</li> <li>• Group reputation and brand image</li> </ul>
Business partners	<ul style="list-style-type: none"> <li>• Business partner meetings</li> <li>• Site visit</li> <li>• Email</li> <li>• Tendering process</li> <li>• Purchase review</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term partnership</li> <li>• Win-win cooperation</li> <li>• Fair purchase</li> <li>• Timely payment</li> </ul>
The public and the community	<ul style="list-style-type: none"> <li>• Site visit</li> <li>• Email</li> <li>• Public newsletters and broadcasts</li> </ul>	<ul style="list-style-type: none"> <li>• Community visit</li> <li>• Donation</li> </ul>

# Environment, Social and Governance Report

## Material Issues

The Group attaches great importance to communication with stakeholders and has established an efficient communication and feedback mechanism to listen to the views and suggestions of stakeholders, including its shareholders, government and regulatory authorities, employees, customers business partners, members of the public and the community through different channels, and to identify the feedback and expectations of each stakeholder on the Group, so as to enhance the Group's ESG performance and respond to the needs of various parties in an effective manner.

The Group focused on the following topics during the Reporting Period:

Material Issues		
Product quality	Customer responsibility	Health and safety
Responsible supply chain management	Consumer protection	Employee rights
Employee training	Core values of the corporate and its employee	Environmental management

## II. SUSTAINABLE OPERATION

### Anti-corruption

In order to promote the Group's anti-corruption work in-depth, further standardize the mechanism of accountability, ensure the comprehensive implementation of the responsibility system of the Party conduct and of an honest and clean administration, as well as maintain the normal production and operation order of the enterprise, we are determined to eliminate "micro corruption" and "soft corruption" in the process of business development. In particular, the Group has formulated the "Administrative Measures on Behavioural Restraints and Accountability of Cadres" (the "**Measures**"), which sets out clear regulations on the daily behaviour of cadres to ensure their compliance with laws, regulations and professional ethics and their construction of a positive image as a role model. The Group strictly complies with the Anti-Money Laundering Law, Anti-Unfair Competition Law and Criminal Law of the People's Republic of China and other relevant laws and regulations.

The Measures set out in detail the code of conduct which cadres should comply with when discharging their duties and the corresponding responsibilities and consequences in the event of disciplinary violations. This will help guide cadres to develop a correct perspective on power, status and interests, enhance their sense of self-discipline and the rule of law, and consciously safeguard the interests and image of the enterprise. In order to ensure the effective implementation of the Measures, the Group has also set up "Problem Reporting Suggestion Box" in the factory to provide employees with a convenient channel to promptly reflect and report the problems and violations of regulations of cadres at work, which helps identify and rectify problems in a timely manner and safeguards the normal operation of the enterprise and the legitimate rights and interests of the employees.

We cover anti-corruption related topics in our regular training for employees, including our directors. In addition, in order to further strengthen the cadres' integrity awareness and their ability to resist corruption, the Group will invite external experts to conduct specialized training, with the aim of enhancing cadres' awareness of the rule of law and improving their ability to exercise self-restraint, achieve self-discipline and comply with the law.

# Environment, Social and Governance Report

Through the implementation of the above measures, we expect to create a clean and honest working environment for the Group and ensure the healthy, stable and sustainable development of the Group. At the same time, we will continue to step up our supervision and inspection efforts and improve the accountability mechanism to ensure that our anti-corruption work achieves an actual outcome.

During the Reporting Period, the Group did not record any incidents of corruption or violation of relevant laws and regulations.

## Supply Chain Management

The Group recognizes the importance of supply chain management in improving operational efficiency. Hence, we cooperate closely with our suppliers in order to meet customers' needs in an efficient manner and continue to put emphasis on responsible business conduct. The Group purchases raw materials and key components from third-party suppliers (whose headquarters are located in the PRC) that are selected in accordance with the relevant requirements of supply chain management. The environmental and social risk factors of suppliers will be fully considered in addition to quality, reputation, price and other factors when selecting suppliers. In addition, some of our supply arrangements for materials or goods involve the customers themselves or their designated suppliers. As at the end of the Reporting Period, the distribution of our suppliers is as follows:

<b>Supplier's Location</b>	<b>Numbers in 2023</b>
Northern China	70
Northeast China	56
Northwest China	2
Eastern China	80
Central China	11
Southern China	7
Southwest China	6

The Group's five largest suppliers mainly comprise rough cast cylinder blocks and cylinder heads sourced from automobile and engine manufacturers, as well as steel producers. The Group maintains good cooperation with the above five largest suppliers and does not rely on any single supplier for the provision of raw materials or key components.

# Environment, Social and Governance Report

The suppliers play a crucial role in the supply chain and are categorized into three main groups, namely equipment suppliers, material suppliers and service suppliers. To ensure the stability and efficiency of the supply chain, the selection of suppliers is especially important. In selecting our suppliers, we comply with a set of stringent standards and principles:

<b>The price of the supplier</b>	We secure the most competitive prices through bidding competitively.
<b>The stability and consistency of the supply chain</b>	We prefer to work with suppliers that provide relatively concentrated services to ensure the stability and consistency of the supply chain.
<b>The quality of services provided by the supplier</b>	High-quality services can ensure the smooth operation of the supply chain and reduce unnecessary hassles and delays.
<b>Other considerations</b>	We comprehensively consider a supplier's financial status, product research and development capability, level of manufacturing processes, level of quality management, capability of supplying goods and services, and other factors.

In addition, the environmental performance of the products provided will also be considered when selecting suppliers to ensure that the purchased products comply with the requirements of the relevant environmental protection indexes and, we will give priority to purchasing environmentally friendly products under the same conditions.

In order to construct a new procurement model, we start from the idea of shortening the development cycle, production on time, cost minimization, components generalization, product development and assembly modularization, which has improved our efficiency, reduced costs, and optimized the structure of the supply chain.

The Group tends to establish long-term partnerships with its suppliers to achieve benefit sharing and risk sharing, which can enhance the stability and reliability of the supply chain and promote mutual development.

In terms of quality assurance, we aim to establish a sound and effective quality assurance system based on TS16949. The materials and goods provided by our suppliers are categorized according to their importance in affecting the quality of our products. For Type A suppliers, we require them to pass the latest TS16949 certification; and for Type B suppliers, we require them to at least pass the latest ISO9001 certification of an accredited third-party certification organization, and to formulate a TS16949 quality system development plan. At the same time, suppliers should also comply with national environmental regulations to ensure that their products are environmentally friendly.

To ensure the continuous improvement of suppliers and strengthen our cooperation with them, the Group reviews the performance of suppliers on a monthly basis and conducts an annual performance assessment based on their results. For suppliers who fail to meet the supply standards, we will conduct annual reviews and follow up on the rectification process until we terminate the cooperation. In the procurement process, we will continue to optimize our selection of suppliers and look for suppliers that are more environmentally friendly and cost-effective, so as to continuously enhance the competitiveness and sustainability of the supply chain.

# Environment, Social and Governance Report

In order to identify the social and environmental risks along the supply chain, during the Reporting Period, the Group actively promoted the implementation of ESG audits and successfully attracted the participation of 33 key suppliers. These suppliers occupy an important position in the Group's business chain, and their ESG performance has a direct impact on the Group's overall sustainable development. In order to enhance the ESG awareness and capability of suppliers, the Group organized a series of training activities, providing a total of 42 hours of training. Through these trainings, suppliers not only gained a deeper understanding of ESG concepts, but also mastered specific practices and improvement measures. These efforts will help promote ESG throughout the supply chain and lay a solid foundation for the Group's sustainable development strategy.

To avoid the impact of unforeseen events on production, the Group will continue to consult with suppliers to communicate with them on the proper preparation of stock for commonly used materials or to promote the application of VMI warehouses. This will help reduce risks in the supply chain and ensure production continuity and stability. At the same time, we will continue to focus on areas of improvement for our suppliers and work with them to achieve continuous improvement and optimization.

## **Product Responsibility**

The Group is committed to maintaining a high quality of the products by performing a variety of quality control, inspection and testing procedures throughout our production process and identify defects and irregularities throughout all stages of production process. The Group strictly adheres to the relevant laws and regulations in respect of product quality and safety, such as the Product Quality Law of the People's Republic of China. The Group has compiled and implemented a set of detailed quality control protocols that are strictly followed by each of our departments. Such protocols set out a series of standardized procedures and measures to monitor and control each stage of our operating process, including procurement of raw materials and key components, production and inspection of finished products, to ensure that our products are of consistently high quality.

The Group has established a quality control department consisting of 54 dedicated quality control inspectors, which is responsible for overseeing the entire production process and has devoted significant resources to maintaining and improving the quality of our products. Our quality control department hosts regular meetings to discuss quality issues arising from the production process and to formulate solutions on potential improvement.

# Environment, Social and Governance Report

Set forth below is a summary of our primary quality control measures:

<p><b>Raw materials and key components</b></p>	<ul style="list-style-type: none"> <li>• Our quality control department conducts sample check on raw materials and key components, in particular the rough cast products procured from customers or third-party suppliers, to ensure such raw materials and key components meet the requisite quality standards;</li> <li>• The Group carries out on-site evaluations at the premises of our main suppliers and assess their production facilities to confirm the source of supply of the raw materials and key components from time to time.</li> </ul>
<p><b>Production process</b></p>	<ul style="list-style-type: none"> <li>• Throughout our entire production process, the Group conducts quality control testing at each key production stage, and our quality control inspectors will closely monitor the production process of each of our products to ensure strict compliance with our standard operating procedures;</li> <li>• The Group has installed and operated a number of advanced inspection equipment, including 12 cylinder bore detectors, 157 pneumatic measuring instruments, 18 triple-axis high precision coordinate measuring machine, a Taylor Hobson cylindricity measuring instrument, a Hommel roughness profiler and a Leica particle analyzer, to ensure that our products are produced precisely to meet our customers' specific design and manufacturing requirements.</li> </ul>
<p><b>Finished products</b></p>	<ul style="list-style-type: none"> <li>• The Group inspects sample batches and the packaging before delivery takes place, and substandard products will not be delivered. Our quality control inspectors investigate the causes for defects and follow up to address problems with the production process. Our products are labelled with a unique serial number to ensure traceability. For ancillary cylinder block components which have been processed by third parties, the Group conducts sample checks to ensure that they meet the quality standards.</li> </ul>
<p><b>Product warranty and after-sales service</b></p>	<ul style="list-style-type: none"> <li>• The Group provides product warranty services for a designated warranty period, mainly for product defects that do not conform to the agreed specifications or quality standards. Advertising and labelling of our products are also subject to monitoring and review.</li> </ul>

# Environment, Social and Governance Report

## **Product and Service Quality**

The Group places emphasis on the control of product and service quality and has set clear targets on product scrap rate, PPM indicators, quality inspection of production lines, customer feedback and other aspects. A series of management procedures have been formulated to strengthen the monitoring and tracking of targets, including the control of substandard products, corrective and preventive measures, the control of monitoring and measuring devices and other measures.

In terms of product and service quality standards, the Group adheres to the internationally recognized IATF 16949 standard to ensure that the operations of the Group as a whole as well as the operations of each department strictly comply with this international standard, covering various aspects of standardized management such as APQP (Advanced Product Quality Planning), FMEA (Failure Mode and Effects Analysis), MSA (Measurement System Analysis), PPAP (Production Part Approval Process) and SPC (Statistical Process Control).

In terms of enhancing product quality control, the Group focuses on staff training, operation preparation, operation monitoring, product cleanliness control, change point management, error prevention mechanism, handling of suspicious or substandard products, and problem avoidance. Quality improvement meetings are held every month, where quality engineers review quality issues on the production line, summarize and analyse them on a daily, weekly and monthly basis, and report the results to the relevant responsible units for rectification, in order to continuously improve the quality of our products. At the same time, the Group also summarizes and analyses the quality issues of after-sale products, which extends horizontally to other products, so as to prevent the recurrence of similar problems.

## **Product Recalls**

In terms of rework and repair, the Group has formulated a clear process to ensure that all products that needs to be repaired strictly follow the process. In order to further enhance service quality, the Group plans to carry out comprehensive optimization in various aspects, such as the management of products leaving the factory, management processes, operational standards and process control. At the same time, we will strengthen procedure system audits and improve the product traceability system to enhance error prevention during processing. We will reorganize the management process and correct the irrationalities and omissions in the management documents. The Group will strengthen training and assessment of quality-related personnel and operators to ensure that they are equipped with the appropriate functions and responsibilities to meet the high standards of product quality.

As a result of our stringent quality control system, our production facilities have obtained ISO/TS 16949 certification since 2012. As at the end of the Reporting Period, the Group has not experienced any material claim from product liability and none of the products sold by the Group were subject to recalls for safety and health reason, nor has the Group become aware of any violations of applicable health and safety, advertising and labelling laws and regulations.

# Environment, Social and Governance Report

## **Intellectual Property Protection**

The Group strictly complies with the Patent Law of the People's Republic of China, Enterprise Intellectual Property Management Standards and other relevant laws and regulations. The intellectual property rights held by Hebei Ruifeng are mainly patents, covering two categories of utility model and invention patents. During the Reporting Period, the Group authorised 4 new utility model patents and 1 invention patent, further enriching its technical reserves and innovation strength. In order to effectively manage these valuable assets, we have assigned 2 intellectual property management personnel and developed a detailed intellectual property management system. In terms of protection measures, we focus on enhancing the intellectual property protection awareness of all employees, and constantly improve the independent innovation mechanism of the corporate to ensure that our operation can strictly follow the relevant laws and regulations in the daily production and business activities, so as to effectively protect the safety and interests of the Group's intellectual property.

## **Customer Service**

The Group's customers mainly cover fields such as passenger vehicles, commercial vehicles, non-road machineries and new energy. We have developed a Customer Satisfaction Control Procedure to assess and improve customer satisfaction. During the Reporting Period, we took "not less than 85%" as our customer satisfaction goal and actively carried out customer satisfaction survey activities.

## **Customer Satisfaction Survey**

In order to better understand customer satisfaction, Hebei Ruifeng issued special forms to customers to carry out customer satisfaction surveys. After collecting and analysing customer feedback, we found that the residual casting sand in the oil return line and water jacket of casting is a prominent problem, which affects the cleanliness of the product and the user experience. To address this problem, we have adopted a series of special measures:

- In the cylinder block shot blasting process, we appropriately extend the shot blasting time and precisely secure the shot blasting spot to ensure that residual sand can be completely removed. At the same time, we have also improved the operational documents and apply these improvement measures to other products in order to improve the overall quality of products.
- Endoscopic equipment has been introduced to examine the cleanliness of all rough casts thoroughly and carefully, with particular attention to the parts prone to residual casting sand. In addition, we have issued visual guidance documents to help employees judge product cleanliness more accurately.
- Strict mutual inspection system is implemented in the mechanical processing stages of rough cast roll-in and finished products roll-out, and the endoscope is used again to thoroughly check the parts prone to residual casting sand, ensuring that every link meets the quality standards.

By implementing the above measures, we expect the problem of residual casting sand in the oil return line and water jacket of casting will be effectively solved, therefore we can further improve the customer satisfaction.

# Environment, Social and Governance Report

## **Customer Complaint**

To address customer complaints, the Group has taken the following measures.

- Establishing a diversified complaint mechanism providing email, telephone, wechat and on-site face-to-face interview channels, to ensure that customers can easily report problems to us.
- Appointing specialized personnel to receive and address these complaints to ensure that each problem is handled promptly and effectively.

Regarding handling complaint and after-sales feedback, we have taken double measures:

- Developing emergency response mechanism, and immediately carrying out inspection and addressing problems, to solve the problems encountered by customers as soon as possible.
- Reporting these problems to the internal quality department and relevant units, requiring them to conduct strict inspection and control before the products leave the factories, and adopting optimised measures in the subsequent production process to prevent the reoccurrence of similar problems.

In 2023, we received a total of 58 customer complaints, handled and contained each customer's on-site products and reported to relevant internal departments and units of the Group. We paid attention to the inspection and treatment before products leaving the factory and the optimization and control in the production process to reduce the occurrence of complaints of related problems. At the same time, we also ensured that the handling feedback was understood by all personnel involved and implemented at work on detail level.

In order to further improve the after-sales service quality, during the Reporting Period, we continued to improve and update the after-sales service operational documents, making the operation process smoother and the work more convenient. In addition, by arranging the after-sales service manager to conduct customer visits to the OEMs from time to time, we further reduced the number of complaints and improved the quality of after-sales service.

## **Privacy Protection**

The Group strictly follows the Data Security Law of the People's Republic of China, Personal Information Protection Law of the People's Republic of China and other laws and regulations related to personal information and privacy protection. All employees are prohibited from disclosing any confidential data. Data including project-related data and other sensitive data is subject to access control to ensure its security and prevent any abuse or misuse of personal and confidential information.

To ensure the security of the internal documents, we have signed a Confidentiality Agreement with relevant factory personnel, and we strictly enforce IT technical restrictions. All graph paper and documents received are automatically encrypted by encryption software to ensure that outsiders cannot access them. The decryption process is subject to a strict approval process to ensure the security and controllability of the information.

# Environment, Social and Governance Report

Furthermore, we have also signed a Confidentiality Agreement with downstream suppliers to guarantee the information security in the supply chain. We understand the importance of confidentiality work and will continue to improve the confidentiality management and ensure the security and completeness of the assets of our customers.

## **Community Charitable Donations**

Always adhering to the social responsibility concept of “taking from the society and giving back to the society”, Hebei Ruifeng has been deeply involved in various public welfare and charitable activities. Over the year, the Group has not only provided financial assistance to students who are in need and promoted financial aid activities, but also actively participated in various volunteer services to give back to the society. During the Reporting Period, the Group donated a total of RMB75,000, of which RMB55,000 was used for road maintenance work. In view of the importance of transportation infrastructure to community development and resident’s lives, we hope to provide local residents with a more convenient and safety travelling environment by funding road maintenance, which in turn promotes the prosperity and progress of the community. In addition, we also donated RMB20,000 to the Agricultural Economic Management Office (農經站) for flood relief work in 2023 to provide necessary assistance to residents in the disaster-stricken areas in order to reduce their burden and tide over the difficulties together.

## **III. EMPLOYMENT AND LABOUR PRACTICE**

### **Employment**

The Group respects and upholds the international human rights treaties and labour standards, strictly implements the laws and regulations such as the Labor Contract Law of the People’s Republic of China and adheres to the principle of fairness and impartiality with fair treatment of employees of different races, nationalities, genders, ages and religious beliefs, in order to eliminate discrimination in employment and occupation, while assisting the disadvantaged groups, striving to provide equal employment opportunities to all job seekers. Detailed provisions on promotion, dismissal, working hours, holidays and annual leave and other aspects have been specified in the staff handbook. The Directors and management team, comprising experienced professionals that possess extensive technical and industry experience, has a proven record of successfully operating and expanding the business. Therefore, the Group ensures the remuneration package of Directors and the management are reasonable and competitive in the market and the Group believes that its long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of the employees depend primarily on their type of work, position, length of service with us and local market conditions.

# Environment, Social and Governance Report

As at the end of the Reporting Period, the Group has no part-time employees and has a total of 766 full-time employees, indicators of which detailed below:

	2023	2022
<b>By gender</b>		
Male	608	645
Female	158	171
<b>By rank</b>		
Senior management	18	18
Middle management	64	107
Other employees	684	691
<b>By function</b>		
Directors and senior management	18	18
Research and development	27	37
Production	598	506
Procurement	9	10
Sales and marketing	23	25
Quality control	52	87
Finance	9	9
Administration and logistics	30	124
<b>By age</b>		
Under 30 years old	34	59
30-45 years old	518	550
46-60 years old	201	196
Over 60 years old	13	11
<b>By education level</b>		
Undergraduate and above	55	52
College	104	112
Below college	607	652
<b>By region</b>		
China	766	816

# Environment, Social and Governance Report

## Turnover of employees

Turnover rate of employees	2023	2022
Total turnover rate of employees <sup>1</sup>	5%	1%
<b>By gender:</b>		
Male	4%	1%
Female	5%	1%
<b>By age</b>		
18-35 years old	29%	6%
36-55 years old	5%	1%
Over 55 years old	2%	–
<b>By region</b>		
China	5%	1%

1 Calculation of the turnover rate of employees: number of employees who resigned during the Reporting Period/ ((Total number of employees at the beginning of the Reporting Period + Total number of employees at the end of the Reporting Period)/2).

As the economy began to recover steadily and get back on track with the subsiding of COVID-19 crisis, we have been aware that some employees have started to look for better development opportunities in the big cities, which is undoubtedly a move to open up new paths for personal career development. However, it also led to the challenge of increased staff turnover. We understand and respect everyone's career choices and development wishes, and we will endeavour to enhance our working environment and benefits in order to attract and retain more excellent talents.

## Labour standards

The Group stringently complies with all national and local laws, such as the Labour Law, Labour Contract Law and Employment Promotion Law of the People's Republic of China. The Group legally abides by labour laws and regulations. The employment of child labour and forced-labour workers are strictly prohibited within the Group.

Being fully aware that exploitation of child labour and forced labour violate human rights and international labour conventions, the Group strictly prohibits the employment of children and forced labour in any form. New employees are required to provide true and accurate personal data when they join the Group. If child labour or forced labour is found in operations, the Group will handle and eliminate relevant violations in accordance with the law. The Group strictly complied with the relevant laws and regulations in relation to the prevention of child labour or forced labour. As at the end of the Reporting Period, there had not been any non-compliance with any laws and regulations for child labour.

# Environment, Social and Governance Report

## Employee Care

The Group has always been committed to safeguarding and enhancing the well-being of our employees. The Group insists on providing benefits to our employees during major festivals such as the Chinese New Year and Mid-Autumn Festival, and actively cares for and protects the rights and interests of our employees. At the same time, the Group strictly enforces the “5 Must-Visit and 6 Must-Discuss (五必訪六必談)” system, paying close attention to the needs and difficulties of our employees and taking effective measures to solve their problems in a timely manner, thus winning the trust and respect of our employees.

The remuneration of our employees includes basic salary and performance-based monthly and annual bonuses. The Group makes contributions for our employees in relation to the mandatory social security funds, including pension, work-related injury insurance, maternity insurance, medical and unemployment insurance in accordance with applicable laws and regulations of the PRC.

## Development and Training

The Group continues to optimize the promotion and advancement mechanism for our employees with the aim of stimulating their enterprising spirit, enabling them to make continuous progress and contribute their wisdom and strength to the Group’s development. The promotion and advancement path not only represents the Group’s emphasis on uncovering employees’ potential and career growth, but is also a career development program that aims to enhance employees’ personal capabilities and add value to the Group. Through this mechanism, we are able to better cultivate and retain outstanding talents and enhance the sense of belonging and loyalty of our employees, thereby promoting the Group’s long-term stable development.

The promotion and advancement path of employees covers a wide range of levels, from basic to advanced, with clear requirements and standards set for each level. Employees can apply for promotion to the appropriate level based on their outstanding performance in terms of work performance, capability enhancement and performance contribution. At the same time, the Group will also provide targeted training and support for career development planning according to the performance and potential of our employees, so as to help them achieve their personal career goals and create a better future together.

With the progress of the times, the continuous evolution of market demand and the rapid technology advancement in the industry, market competition has become increasingly fierce. Against this background, the Group is facing the dual challenges of external environmental adjustment and internal development needs. Currently, the cultural mechanism and talent team building have become bottlenecks for the Company’s further development.

To address these issues, we launched a series of important initiatives during the Reporting Period:

- Implementing corporate culture building by identifying an executable mechanism in line with the current stage of culture implementation, enhancing training in human resources related projects, strengthening corporate culture building and promotion, and standardizing the path for corporate culture implementation.

# Environment, Social and Governance Report

- Optimizing the organizational structure by establishing an organizational management system in line with the current stage to ensure the high efficiency of the Company's operations.
- Establishing a qualification system in line with the current stage, forming an efficient talent development mechanism, and clarifying the career path and competency assessment standard system.
- Cultivating a human resources team that meets the Company's needs and enhancing the professionalism of human resources to provide strong support for the Company's development.
- Optimizing the diversified remuneration distribution mechanism based on performance contribution and competence quality according to the current remuneration performance system, such that the performance system will be tilted in favor of value creators.

At the same time, the Group establishes an organizational structure based on innovation and hard work, and continues to optimize and build an efficient human resources team. In addition, the Group will also establish a value-sharing mechanism based on performance contribution, such that remuneration incentives will be tilted in favour of performance creators, and the development path of talents will be clearly defined, so as to achieve co-development, co-creation and co-sharing between the organization and its employees. These initiatives will help the Group break through the bottleneck in its development and achieve more stable and sustainable growth.

The Group places a strong emphasis on training our employees, and considers nurturing of talent as the key to the Group's development. In order to attract, retain and develop the knowledge, skill level and quality of our employees, the Group continues to optimize its training and development system. Prior to commencement of work, new employees must attend mandatory pre-employment training sessions. In addition, the Group also invited professional trainers from third-party research institutions to provide our employees with regular training on professional knowledge, technical skills and production safety.

During the Reporting Period, the Group launched a wide range of training programs, including process re-engineering training, corporate culture implementation, human resources management and quality training. In addition, the Group also launched training programs such as Linghang class (領航班), Qihang class (啟航班) and Feihang class (飛航班), with the aim of enhancing the capabilities and skills of our employees in all aspects.

# Environment, Social and Governance Report

Categories		2023	2022
Total number of employees who received training		766	816
Percentage of employees who received training (%)	Percentage of male employees trained	100%	100%
	Percentage of female employees trained	100%	100%
	Percentage of senior management trained	100%	100%
	Percentage of middle management trained	100%	100%
	Percentage of the rest of the staff trained	100%	100%
Average training hours of employees (hours)	Average training hours for male employee	13.7	2.8
	Average training hours for female employee	10.7	2.6
	Average training hours for senior management	30.6	26.0
	Average training hours for middle management	48.0	4.0
	Average training hours for the rest of the staff	9.4	2.0

## Health and Safety

The Group strictly abides by laws and regulations such as the Work Safety Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases to ensure the occupational health and safety of its employees.

The Group has implemented various safety guidelines and operating procedures for our production process to ensure safe operation of our production facilities and to prevent injuries. The Group conducts regular and thorough worksite inspection to eliminate potential hazards in our work environment. The Group also provides mandatory safety training to all new employees prior to commencement of work. Furthermore, the Group provides employees with occupational safety education and training to enhance their awareness of safety issues from time to time.

The Group attaches great importance to the health and safety of its employees. In order to ensure that our employees are healthy, safe and able to perform their tasks efficiently in the work environment, the Group has put in place the following policies and practices:

- Optimizing the working environment for employees.** We understand that a comfortable, clean and safe working environment is crucial to the physical and mental health of our employees. Therefore, in accordance with the relevant standards and requirements, we continuously improve our corporate infrastructure to provide our employees with reasonably arranged, well-equipped, clean and tidy workplaces. At the same time, we pay attention to the concept of green environmental protection and strive to create a comfortable, beautiful and humane working environment to ensure that there are no sanitary corners so that employees can work efficiently in a pleasant atmosphere.

# Environment, Social and Governance Report

- **Emphasizing on workplace equipment and facilities.** We recognize that the performance and comfort of workplace equipment and facilities have a direct impact on the productivity and health of our employees. Therefore, we carefully design and configure the equipment and facilities in the workplace in strict accordance with ergonomics requirements and health needs. We ensure that the lighting, illumination, ventilation, temperature preservation, heat insulation, sound insulation and pollutant control of the workplace comply with the relevant national and local standards to create a healthy and comfortable working environment for our employees.
- **Actively carrying out tobacco control work and striving to create a smoke-free environment.** We are fully aware of the health hazards of smoking to our employees and therefore actively promote a total ban on smoking in indoor workplaces and public places. We ensure the physical and mental well-being of our employees by placing prominent no-smoking signs and banning tobacco advertising and promotional activities across the Group.
- **Paying attention to the layout and management of toilet facilities.** We recognize the importance of toilet facilities to the daily convenience and comfort of our employees, and are committed to ensuring that our toilets are well laid out, well managed, clean and tidy. We continue to optimize the configuration and maintenance of our toilet facilities to provide a comfortable and convenient toilet environment for our employees.

In terms of occupational disease prevention, the Group has taken a series of specific actions. We have established a complete occupational health management system and operating procedures to strengthen the monitoring and evaluation of occupational hazard factors in the workplace. At the same time, we encourage employees to participate in fitness activities, provide fitness venues and facilities, and carry out workplace exercises, eye exercises and other healthy exercises to help employees combine work and rest during work.

The Group pays special attention to the health and safety of female employees. We strictly comply with the Special Rules on the Labour Protection of Female Employees, enhancing the care and attention given to pregnant and breastfeeding female workers to ensure that they can maintain their health and safety in the work environment. In the future, we will continue to work hard to improve the working environment and health management standards of our employees and protect their physical and mental health.

In the past three years, the Group has not experienced any work-related deaths. During the Reporting Period, the Group lost a total of 30 working days due to work-related injuries. Our performance in employee health and safety was relatively stable, with a Lost Time Injury Rate (LTIR) of 0.35. To further enhance the safety and health standards of our employees, the Group invested RMB53,000 in employee health and safety related initiatives and training.

# Environment, Social and Governance Report

## IV. ENVIRONMENT PROTECTION

### Environment and Natural Resources

The Group has managed and controlled the emissions generated by its production and operating activities in strict compliance with the Environmental Protection Law of the People's Republic of China, the Air Pollution Prevention Law of the People's Republic of China, the Integrated Emission Standard of Air Pollutants, the Water Pollution Prevention Law, the Quality Standards for Sewage Discharge into Urban Sewers, and other laws and regulations as well as requirements of local environmental authorities. During the Reporting Period, the Group was not subject to any notice or punishment from competent environmental authorities concerning breach of the relevant law or regulations.

Although the production process of the Group does not cause any material adverse impact to the environment, the Group is committed to minimizing any potential adverse impact on the environment which may be resulted from its production process. The Group has put in place various dust cleansing and collection devices at all key stages of production operations to minimize dust generation. The Group has also developed a cutting fluid disposal device which recycles and reuses the hazardous cutting fluid generated during our production process to ensure clean disposal of such industrial liquid waste. In addition, the Group has adopted a self-developed lost foam casting process which is considered more environmentally-friendly and cost-effective to produce a portion of our rough cast cylinder block products. The Group obtained two utility model patents from the SIPO for the aforementioned cutting fluid disposal device and the lost foam casting process in October 2016 and July 2017, respectively. The Group believes these measures effectively reduce the negative environmental impact of the hazardous materials the Group produces while satisfying our sustainable production needs.

The Group's production generally bears a low impact on emission except electricity consumption which is our major source of greenhouse gas (the "GHG") emission and energy footprint. Despite that, the Group has strived to achieve environmental sustainability and has formulated relevant rules and regulations for a sound and effective management of energy consumption, emission, and use of resources as well as discharge of domestic waste and sewage and other pollutants, as highlighted below:

- comply with applicable environmental protection laws and regulations;
- define appropriate goals, objectives and targets on a regular basis for our ESG management approach;
- improve continuously the ESG management system and maintain rigorous standards;
- promote environmental awareness among the workforce with regular communication; and
- communicate our environmental performance to stakeholders and seek their involvement wherever applicable.

# Environment, Social and Governance Report

During the Reporting Period, the Group complied with applicable environmental protection laws and regulations in relation to i) air and the GHG emissions, ii) discharge into water and land, and iii) generation of hazardous and non-hazardous waste. The Group did not violate any environmental protection laws or regulations of the region where we operate, nor was it subject to significant fines, non-monetary penalties and litigation relating to environmental protection.

During the Reporting Period, the Group replaced the original 6-ton melting furnace with a 3-ton melting furnace, thereby reducing production capacity by 13,000 tons. During the production process, cold core making will produce triethylamine waste gas, hot core making and casting processes will produce waste gas containing formaldehyde and phenols, and smelting and machining processes will release dusty waste gas. In order to deal with these environmental problems, the Group has formulated a series of policies and systems and taken corresponding measures. For triethylamine waste gas, we added a dilute phosphoric acid spray tower for purification treatment, and then discharged it through a 15-meter-high exhaust pipe. Meanwhile, waste gas containing formaldehyde and phenols will also be treated by an activated carbon adsorption device. For the dust generated during the smelting and machining process, the Group will use bag dust collectors to treat it and discharge it through a 15-meter-high exhaust pipe. These measures are in line with the 《RF. HBB.6.A.2024 (Environmental Protection Management Measures) 》 formulated by the Company, aiming to ensure that the Group minimizes the negative impact on the environment and resources while carrying out relevant business activities.

## 2030 Environmental Targets

To support global efforts to address climate change and to facilitate the assessment of the effectiveness of the Group's strategies and measures to mitigate the impacts of climate change, environmental objectives are set at the Group level as follows:

The target of reducing emission intensity by 2030, using 2022 as a base year:

Electricity consumption	Water consumption	Non-hazardous waste	Greenhouse gas emissions
↓ 5%	↓ 5%	↓ 5%	↓ 5%

We have installed solar photovoltaic panels on the roofs of our plants, generating about 20 million kWh of electricity annually. Of this amount, the Group self-consumed 95% of the electricity generated, equivalent to saving 19 million kWh of externally purchased electricity. The remaining electricity is integrated into the local power grid, which not only reduces our dependence on external power, but also brings considerable economic benefits to the enterprise.

In order to reduce water consumption, the Group has increased employee training aimed at educating employees on the importance and methods of saving water. We post water conservation signs in appropriate places to remind employees to save water in their daily lives. Together, these initiatives form a comprehensive water conservation strategy aimed at cultivating employees' awareness of water conservation and achieving sustainable use of water resources. In terms of wastewater management, we have taken a series of measures, such as collecting some of the liquids generated from aluminium briquettes for reuse. At the same time, we have also ordered iron briquetting press machine to recover more liquid for reuse.

# Environment, Social and Governance Report

In order to reduce production of harmless waste, the Group plans to build a new sand recycling centre in 2028 to fully utilize waste sand. Through these measures, we strive to achieve environmentally friendly production and contribute to sustainable development.

In order to increase the utilization of resources, we have added a new briquetting machine. This equipment can effectively recycle discarded aluminium scraps and iron scraps and press them to make them easier to recycle. This measure not only helps reduce resource waste, but also reduces production costs and achieves green production.

In order to effectively reduce greenhouse gas emissions, we mainly focus on the optimal use of energy. In the plant, we introduced inverter air conditioning to address the cooling problem of large-scale equipment to cope with the heat generated by the equipment in an energy-efficient manner. For the drying process in the casting workshop, we have upgraded to natural gas drying, aiming to further reduce carbon dioxide emissions and contribute to the environmental protection industry.

## Use of Resources

The Group has always abided by the relevant provisions of the Energy Conservation Law of the People's Republic of China and has formulated the following energy-saving measures:

- We come up with a comprehensive production water and electricity consumption plan, reasonably arrange preheating and high energy consumption processes in the production workshop, and ensure that no production equipment is turned on. Meanwhile, according to the characteristics of the production process, we usually cut off the power supply immediately after the end of production to reduce unnecessary energy consumption.
- We encourage and demand awareness of water and electricity conservation among all staff and turning off lights, faucets, air conditioners, calculators and other equipment when the use of them is unnecessary to reduce the consumption of energy, contributing to energy saving and environmental protection together.

The Group believes that corporation has social responsibility, which is imperative, in promoting the sustainable development of environment. The Group formulated environmental principles correspondingly to ensure the effective implementation of various measures. In production and operation activities, increased use of energy-saving facilities and reduced energy consumption to mitigate or avoid the impact of wasted water, exhaust gas, greenhouse gas and hazardous and non-hazardous waste on the environment; encouraged the staffs to raise environment protection awareness and to acquire knowledge and skills related to environment protection. The Group strictly complied with national laws, regulations and policies.

The Group has carried out International Environment Management System Authentication ISO14001 and passed such authentication. The Group has not encountered any issues in sourcing suitable water. We closely monitor emission and environment protection in order to satisfy the required standards under the relevant law and regulations. Looking ahead, we will continuously assess its environment risks so as to formulate appropriate response measures and regularly review.

# Environment, Social and Governance Report

## **Clean Production**

In order to explore the opportunities and potential of clean production, we have conducted in-depth studies on various dimensions, including raw and auxiliary materials and energy, technology and process, equipment, process control, waste generation and disposal, product management and employee quality. Combining the audit focus and cleaner production goals, we carefully selected ten clean production programs.

We made an investment of RMB1.225 million, achieved an annual saving of 162.58 tons of aluminium ingots, and brought economic benefits of RMB3.0658 million to the Group. The implementation of these programs has achieved significant results, such as, the consumption of aluminium ingots per unit product in a casting workshop in Hebei Ruifeng was reduced from 1016.13 kg/t to 990.52 kg/t, to realize multiple environmental and economic benefits such as pollution reduction, energy saving, consumption reduction and efficiency increase.

The implementation of these programs has enhanced the overall management standard of the enterprises, effectively reduced resource consumption, minimized the generation and emission of pollutants, and further lowered costs. This has not only brought considerable economic benefits to the Group, but also significant environmental and social benefits to society, laying a solid foundation for the continued promotion of cleaner production.

Statistics of packaging materials consumed in our production and logistics during the Reporting Period are set out below:

<b>Categories</b>	<b>2023</b>
Plastic sheeting (kg)	<b>30,306</b>
Number of packing bags	<b>157,242</b>
Number of packing boxes	<b>42,225</b>
Number of septa	<b>214,278</b>
Number of trays	<b>18,615</b>

## **Emissions Control**

The Group strictly implements the environmental protection policies, laws and regulations of the national and local governments. We strictly abide by the Environmental Protection Law of the People's Republic of China, Water Pollution Prevention Law of the People's Republic of China, Air Pollution Prevention Law of the People's Republic of China, the Prevention and Control of Environmental Pollution by Solid Waste Law of the People's Republic of China etc., actively taking measures to manage emissions and fulfilling environmental responsibilities. The Group will continue to implement the concepts of energy saving, energy consumption reduction and green environmental protection to reduce emissions from the source. We will always aim to promote emissions management and environmental protection processes as a long-term goal, with the ultimate goal of realizing the concept of a circular economy and taking the path of sustainable development.

# Environment, Social and Governance Report

The Group's the GHG emissions are set out below:

<b>Source of emissions</b>	<b>2023</b>
Scope I: direct emissions <sup>2</sup> (tCO <sub>2</sub> e)	<b>4,974.30</b>
Scope II: indirect emissions <sup>3</sup> (tCO <sub>2</sub> e)	<b>53,268.74</b>
GHG emissions in total (tCO <sub>2</sub> e)	<b>58,243.04</b>
GHG emission intensity (tCO <sub>2</sub> e/RMB10,000 of revenue)	<b>0.81</b>

2 Direct GHG emissions: Direct emissions from operations that are owned or controlled by the Group, i.e. the Group's gasoline consumption multiplied by the corresponding emission factor with reference to (1) China Energy Statistics Yearbook 《中國能源統計年鑒》(2) 《IPCC 2006》.

3 Indirect GHG emissions: Energy indirect emissions resulting from the generation of purchased or acquired electricity, heating, cooling and steam consumed within the Group, i.e. the consumption of purchased electricity of the Group multiplies the corresponding emission factor, which refers to the Notice on the Key Work Related to the Management of Enterprise Greenhouse Gas Emissions Reporting in 2022 《關於做好2022年企業溫室氣體排放報告管理相關重點工作的通知》.

The Group uses energy in the following ways:

<b>Ways of using energy</b>	<b>2023</b>
Gasoline (L)	<b>27,997.80</b>
Natural gas (m <sup>3</sup> )	<b>2,015,265.00</b>
Diesel (L)	<b>182,306.60</b>
Electricity (MWh)	<b>93,404.77</b>
Comprehensive energy consumption <sup>4</sup> (MWh)	<b>2,611,836.12</b>
Intensity of energy consumption (MWh/ RMB10,000 of revenue)	<b>36.35</b>

4 Comprehensive energy consumption is calculated based on the conversion factors in the National Standard of the People's Republic of China, General Principles of Comprehensive Energy Consumption Calculation (GB/T2589-2020) 《綜合能耗計算通則(GB/T2589-2020)》.

The Group's water consumption statistics are as follows:

<b>Water consumption</b>	<b>2023</b>
Total water consumption (m <sup>3</sup> )	<b>111,283.00</b>
Water consumption intensity (m <sup>3</sup> /RMB10,000 of revenue)	<b>1.55</b>

## **Wastewater management**

The Group is keenly aware of the scarcity of fresh water resources and the importance of water conservation, and is committed to the concept of environmental protection. We strictly abide by laws and regulations such as the Environmental Protection Law of the People's Republic of China and the Water Pollution Prevention Law of the People's Republic of China, and follow the guiding principles of RF. HBB.6.A.2024 (Environmental Protection Management Measures). Through training and publicity activities, employees are actively encouraged to make reasonable suggestions.

# Environment, Social and Governance Report

Our primary use of water in the manufacturing process includes the addition of machining centre cutting fluids and the dosing of washer cleaners. At present, we have taken a series of measures, such as collecting part of the liquid generated from aluminium scraps for reuse. At the same time, we have also ordered an iron briquetting press machine to recover more liquid for reuse. In the future, we will purchase filtration equipment to filter the cleaning fluid before reusing it, thereby reducing the use of fresh water and wastewater discharge.

## **Exhaust Gas Control**

In terms of emission control, our emissions mainly include particulate pollutants, sulphur dioxide, nitrogen oxides, and so on. Smoke and dust mainly come from the electric furnace melting and casting processes, while sulphur dioxide and nitrogen oxides mainly come from the sand core drying and painting processes.

We use recycled materials with lower impurities for screening to reduce pollutant emissions. As of the end of 2023, the Group already has 5 new energy vehicles, and we plan to replace at least 5 traditional fuel vehicles every year. Looking ahead, the Group is committed to upgrading all off-road mobile vehicles in its plants to new energy vehicles by 2030 to promote sustainable transportation and eco-friendly mobility.

As of the end of the Reporting Period, the Group had fully completed the replacement of all National III and below emission standard vehicles in its plants to ensure the effective improvement of environmental standards.

<b>Categories</b>	<b>Emissions in 2023 (tons)</b>
Particulate matter	12.14
Sulphur dioxide	0.31
Nitrogen oxide	1.23
Volatile organic compounds	0.96

## **Waste Management**

During the group's processing of cylinder blocks, harmful substances such as waste oil residue, waste cutting fluid, waste paint residue, waste activated carbon, and waste paint buckets, as well as solid harmless substances such as waste sand and dust removal ash, will be produced. To deal with these hazardous substances, we have set up a standardized hazardous waste room for temporary storage and commissioned a qualified hazardous waste treatment company to carry out subsequent treatment. For non-hazardous materials, we have signed an agreement with a qualified third-party for the regular transportation and disposal of dust ash and waste sand.

To reduce the generation of hazardous waste at source, we have taken a number of measures:

- Maintaining the machining centre regularly to prevent fluid and oil leakage.
- Ensuring the normal operation of the equipment in the sand regeneration centre of the foundry workshop to reduce effectively the generation of waste sand.

# Environment, Social and Governance Report

Waste sand has the potential to be reused, so we set up a sand recycling workshop. The workshop is equipped with a sand regeneration production line, whose main task is to regenerate old sand throughout the plant. We adopt filtration and roasting methods and can process 30,000 tons of old sand every year. In order to ensure efficient operation, the workshop is equipped with key equipment such as calcining machines, vibrating screens, and storage tanks. These measures not only help recycle resources, but also reduce production costs, achieving a win-win situation for environmental protection and economic benefits.

The Group generates various harmless solid wastes during production and general work, including sand and dust, domestic waste, canteen food waste and green waste. During the Reporting Period, the Group generated 3,567 tons of non-hazardous solid waste (2022: 3,000 tons), with the harmless waste generation intensity of 0.05 tons/RMB10,000 of revenue.

During the Reporting Period, the Group generated 16.7 tons of hazardous waste (2022: 10.5 tons), with the hazardous waste generation intensity of 0.23 kg/RMB10,000 of revenue.

Statistics on the amount of hazardous waste generated by the Group are as follows:

<b>Categories</b>	<b>Quantity (tons)</b>
Oil residue (waste oil sludge)	8.7
Harmful cutting fluids	1.6
Waste mineral oil	0.1
Waste packaging container	6.3
Total	16.7

## Addressing Climate Change

Climate change is not only a change in global temperature, but also a change in weather. It has become an environmental issue of global concern. The Group is aware of the risks brought by identifying and assessing climate change, and has taken feasible measures. In addition, the Group has been integrating resources to strengthen governance, develop long-term strategies and expand our climate risk management capabilities.

### Climate Change Management

The Board is responsible for the supervision of the Group's environmental and social matters, including risk assessment and risk management. It also collaborates with relevant departments to identify and study the impact of climate change on the Group's business activities, so as to fully control climate-related risks and opportunities. In terms of acute physical risks, extreme weather such as typhoons, heavy rains, and high temperatures will have varying degrees of impact on the Group. Therefore, the Group has formulated an Environmental Emergency Plan to enable timely response, proper handling, and ensure the personal safety of employees. While taking various responsive measures, the Group reminds employees to make corresponding preparations in advance.

# Environment, Social and Governance Report

## ***Recognizing and Addressing Climate Change***

Climate-related risks include risks related to the transition to a low-carbon economy (hereinafter referred to as “**transition risks**”) and risks related to the physical impacts of climate change (hereinafter referred to as “**physical risks**”). In particular, transformation risks can be divided into policy and legal risks, technology risks, market risks, and reputation risks. Physical risks include acute risks (such as extreme weather such as typhoons and floods) and chronic risks (changes in climate patterns such as persistent high temperatures). Among all climate change phenomena, the Group is aware that heavy rains, floods, heat waves, high temperatures and severe typhoons have adverse impacts on our operations. The Group has formulated preventive measures and standard operating procedures and conducted education to employees and subcontractors to prevent losses and accidents during extreme weather events.

# Independent Auditor's Report



## **Independent auditor's report to the shareholders of Ruifeng Power Group Company Limited**

*(Incorporated in the Cayman Islands with limited liability)*

### **OPINION**

We have audited the consolidated financial statements of Ruifeng Power Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 88 to 152, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes, including material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board 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 ("HKSA") 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

# Independent Auditor's Report

## KEY AUDIT MATTERS

<b>Timing of revenue recognition</b>	
<i>Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(r).</i>	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Group's revenue is principally generated from the manufacture and sales of cylinder blocks and cylinder heads.</p> <p>The Group's sales contracts with customers, which are primarily automobile manufacturers and engine producers, have a variety of terms relating to goods acceptance. Such terms may affect the timing of the recognition of sales to these customers. Management evaluates the terms of each contract in order to determine the Group's performance obligations, allocation of transaction price and appropriate timing and value for revenue recognition.</p> <p>We identified the timing of revenue recognition as a key audit matter because revenue is a key performance indicator of the Group which increases the risk that revenue may be manipulated to meet financial expectations or targets and because there is a risk that particular terms of sale contracts may not be met and, as a result, revenue may not be recognised properly and in the correct periods.</p>	<p>Our audit procedures to assess the timing of revenue recognition included the following:</p> <ul style="list-style-type: none"> <li>• obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition;</li> <li>• inspecting the terms of sales contracts with customers, on a sample basis, to assess whether the Group has appropriately identified performance obligations and determined and allocated the transaction price correctly;</li> <li>• evaluating the conditions of goods acceptance as to whether control over the goods has been passed and performance obligation is satisfied when the Group recognises the revenue, and assessing the Group's timing and value of recognition of revenue with reference to the requirements of the prevailing accounting standards;</li> <li>• comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, which included goods acceptance notes, to assess whether the revenue had been recognised in accordance with the terms of the sales contracts and in the appropriate financial periods;</li> <li>• inspecting underlying documentation for manual journal entries relating to revenue which were recorded during the year and which met specific risk-based criteria; and</li> <li>• confirming, on a sample basis, the value of sales transactions for the year ended 31 December 2023 directly with customers and inspecting underlying documentation relating to reconciling differences between the transaction amounts confirmed and the Group's accounting records to assess whether the related revenue had been recognised in the appropriate financial periods.</li> </ul>

# Independent Auditor's Report

## **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON**

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

The directors are 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. This 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.

# Independent Auditor's Report

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

## Independent Auditor's Report

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 Chu Man Wai.

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

28 March 2024

# Consolidated Statement of Profit or Loss

for the year ended 31 December 2023

(Expressed in Renminbi ("RMB"))

	Note	2023 RMB'000	2022 RMB'000
<b>Revenue</b>	4(a)	<b>718,487</b>	600,487
Cost of sales		<b>(630,781)</b>	(503,021)
<b>Gross profit</b>	4(b)	<b>87,706</b>	97,466
Other income	5	<b>15,165</b>	23,202
Selling expenses		<b>(10,373)</b>	(10,539)
Administrative expenses		<b>(75,085)</b>	(72,889)
Reversal/(recognition) of impairment losses on trade receivables	6(c)	<b>5,348</b>	(5,833)
<b>Profit from operations</b>		<b>22,761</b>	31,407
Finance costs	6(a)	<b>(10,006)</b>	(8,249)
<b>Profit before taxation</b>	6	<b>12,755</b>	23,158
Income tax	7	<b>(1,487)</b>	(2,746)
<b>Profit for the year attributable to equity shareholders of the Company</b>		<b>11,268</b>	20,412
<b>Earnings per share</b>			
Basic and diluted (RMB)	10	<b>0.014</b>	0.026

The notes on pages 95 to 152 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 24(c).

# Consolidated Statement of Profit or Loss and Other Comprehensive income

for the year ended 31 December 2023

(Expressed in RMB)

	2023 RMB'000	2022 RMB'000
<b>Profit for the year</b>	<b>11,268</b>	20,412
<b>Other comprehensive income for the year (after tax):</b> Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of the Company and a subsidiary into presentation currency	<b>46</b>	2,097
<b>Total comprehensive income for the year attributable to equity shareholders of the Company</b>	<b>11,314</b>	22,509

The notes on pages 95 to 152 form part of these financial statements.

# Consolidated Statement of Financial Position

at 31 December 2023

(Expressed in RMB)

	Note	2023 RMB'000	2022 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	11	838,377	829,741
Right-of-use assets	12	103,494	106,385
Deferred tax assets	21(b)	20,113	14,955
Other non-current assets	13	39,291	38,730
		<b>1,001,275</b>	989,811
<b>Current assets</b>			
Inventories	15	273,116	273,057
Trade receivables, other receivables and prepayments	16	319,333	317,346
Prepaid income tax	21(a)	4,861	12,242
Cash at bank and on hand	17	40,555	11,550
		<b>637,865</b>	614,195
<b>Current liabilities</b>			
Trade and other payables	18	377,008	339,989
Interest-bearing borrowings	19(a)	101,199	233,269
Lease liabilities	20	–	276
Provision for warranties	23	4,652	5,170
		<b>482,859</b>	578,704
<b>Net current assets</b>		<b>155,006</b>	35,491
<b>Total assets less current liabilities</b>		<b>1,156,281</b>	1,025,302
<b>Non-current liabilities</b>			
Interest-bearing borrowings	19	142,325	2,177
Deferred income	22	27,499	33,401
Lease liabilities	20	–	71
Deferred tax liabilities	21(b)	1,650	5,121
		<b>171,474</b>	40,770
<b>NET ASSETS</b>		<b>984,807</b>	984,532

The notes on pages 95 to 152 form part of these financial statements.

# Consolidated Statement of Financial Position

at 31 December 2023

(Expressed in RMB)

	Note	2023 RMB'000	2022 RMB'000
<b>CAPITAL AND RESERVES</b>	24		
Share capital		66,425	66,425
Reserves		918,382	918,107
<b>TOTAL EQUITY</b>		<b>984,807</b>	984,532

Approved and authorised for issue by the board of directors on 28 March 2024.

**Meng Lianzhou**  
Chairman

**Liu Enwang**  
Director

The notes on pages 95 to 152 form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2023

(Expressed in RMB)

	Share capital RMB'000 Note 24(b)	Share premium RMB'000 Note 24(d)(i)	Statutory reserve RMB'000 Note 24(d)(ii)	Exchange reserve RMB'000 Note 24(d)(iii)	Retained profits RMB'000	Total equity RMB'000
<b>Balance at 1 January 2022</b>	66,425	116,410	34,937	7,456	748,968	974,196
<b>Changes in equity for 2022:</b>						
Profit for the year	-	-	-	-	20,412	20,412
Other comprehensive income for the year	-	-	-	2,097	-	2,097
Total comprehensive income	-	-	-	2,097	20,412	22,509
Appropriation to reserves	-	-	3,679	-	(3,679)	-
Interim dividends declared (Note 24(c))	-	(12,173)	-	-	-	(12,173)
	-	(12,173)	3,679	-	(3,679)	(12,173)
<b>Balance at 31 December 2022 and 1 January 2023</b>	<b>66,425</b>	<b>104,237</b>	<b>38,616</b>	<b>9,553</b>	<b>765,701</b>	<b>984,532</b>
<b>Changes in equity for 2023:</b>						
Profit for the year	-	-	-	-	12,518	12,518
Other comprehensive income for the year	-	-	-	46	-	46
Total comprehensive income	-	-	-	46	12,518	12,564
Appropriation to reserves	-	-	2,475	-	(2,475)	-
Interim dividends declared (Note 24(c))	-	(11,039)	-	-	-	(11,039)
	-	(11,039)	2,475	-	(2,475)	(11,039)
<b>Balance at 31 December 2023</b>	<b>66,425</b>	<b>93,198</b>	<b>41,091</b>	<b>9,599</b>	<b>775,744</b>	<b>986,057</b>

The notes on pages 95 to 152 form part of these financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2023

(Expressed in RMB)

	Note	2023 RMB'000	2022 RMB'000
<b>Cash flows from operating activities</b>			
Profit before taxation		<b>12,755</b>	23,158
Adjustments for:			
Depreciation	6(c)	<b>101,275</b>	88,713
Finance costs	6(a)	<b>9,769</b>	8,249
Interest income	5	<b>(63)</b>	(242)
Net loss on disposal of property, plant and equipment	5	<b>648</b>	126
Amortisation of deferred income	22	<b>(5,902)</b>	(6,566)
Changes in working capital:			
Increase in inventories		<b>(59)</b>	(33,454)
Increase in trade and other receivables		<b>(1,987)</b>	(8,050)
Increase in trade and other payables		<b>36,244</b>	14,213
(Decrease)/increase in provision for warranties		<b>(518)</b>	133
Net (increase)/decrease in restricted deposit with a bank		<b>(20,000)</b>	10,000
<b>Cash generated from operations</b>			
Income tax paid	21(a)	<b>(2,735)</b>	(2,763)
<b>Net cash generated from operating activities</b>		<b>129,427</b>	93,517

The notes on pages 95 to 152 form part of these financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2023

(Expressed in RMB)

	Note	2023 RMB'000	2022 RMB'000
<b>Cash flows from investing activities</b>			
Payments for acquisitions of property, plant and equipment		(101,857)	(163,225)
Proceeds from disposal of property, plant and equipment		975	2,411
Interest received	5	63	242
<b>Net cash used in investing activities</b>		<b>(100,819)</b>	<b>(160,572)</b>
<b>Cash flows from financing activities</b>			
Capital element of lease rentals paid	17(b)	(347)	(357)
Interest element of lease rentals paid	17(b)	(4)	(13)
Proceeds from interest-bearing borrowings	17(b)	228,816	254,446
Repayment of interest-bearing borrowings	17(b)	(220,970)	(179,000)
Dividends paid	17(b)	(17,281)	(7,837)
Finance costs paid	17(b)	(9,765)	(8,217)
<b>Net cash (used in)/generated from financing activities</b>		<b>(19,551)</b>	<b>59,022</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>9,057</b>	<b>(8,033)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	17(a)	<b>11,550</b>	<b>20,009</b>
<b>Effect of foreign exchange rate changes</b>		<b>(52)</b>	<b>(426)</b>
<b>Cash and cash equivalents at the end of the year</b>	17(a)	<b>20,555</b>	<b>11,550</b>

The notes on pages 95 to 152 form part of these financial statements.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 2 May 2017 as an exempted company with limited liability under the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 5 January 2018 (the "**Listing Date**"). The Group is principally engaged in the design, development, manufacture and sale of cylinder blocks, cylinder heads and ancillary cylinder block components and others.

## 2 MATERIAL ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The IASB has issued certain amendments to IFRS Accounting Standards that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2023 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

These consolidated financial statements have been prepared on a going concern basis, the directors of the Company are of the opinion that based on a cash flow forecast of the Group for the twelve months ending 31 December 2024 prepared by the management, the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the reporting period. The directors of the Company believe that according to the negotiation with the relevant banks, the major subsidiaries of the Group are able to renew its bank facilities upon maturity. As a result, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

### (c) Changes in accounting policies

The Group has applied the following new and amended IFRS Accounting Standards issued by the IASB to these financial statements for the current accounting period:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 1, *Presentation of financial statements* and IFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new and amended IFRS Accounting Standards are discussed below:

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (c) Changes in accounting policies *(continued)*

#### ***IFRS 17, Insurance contracts***

IFRS 17, which replaces IFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts. The standard does not have a material impact on these financial statements as the Group does not have contracts within the scope of IFRS 17.

#### ***Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates***

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

#### ***Amendments to IAS 1, Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies***

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

#### ***Amendments to IAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction***

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The amendments do not have a material impact on these financial statements.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (c) Changes in accounting policies *(continued)*

#### ***Amendments to IAS 12, Income taxes: International tax reform – Pillar Two model rules***

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (“**OECD**”) (income tax arising from such tax laws is hereafter referred to as “Pillar Two income taxes”), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax including the estimated tax exposure to Pillar Two income taxes. The amendments are immediately effective upon issuance and require retrospective application. However, because no new legislation to implement the Pillar Two income tax was enacted or substantively enacted at 31 December 2022 in any jurisdiction in which the Group operates and no related deferred tax was recognised at that date, the retrospective application has no impact on the Group’s consolidated financial statements.

### (d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company’s statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)(ii)).

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	<b>Estimated useful lives</b>
Plant and buildings	20 – 30 years
Machinery and equipment	3 – 10 years
Motor vehicles and others	3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (f) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

#### ***As a lessee***

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

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)). Right-of-use assets are depreciated using the straight-line method from the commencement lease date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment.

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

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (f) Leased assets *(continued)*

#### *As a lessee (continued)*

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract (“lease modification”) that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

### (g) Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(t)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

### (h) Credit losses and impairment of assets

#### (i) Credit losses from financial instruments

##### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls for trade and other receivables and contract assets are discounted using the effective interest rate determined at initial recognition or an approximation thereof, where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### (i) Credit losses from financial instruments *(continued)*

##### *Measurement of ECLs (continued)*

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### (i) Credit losses from financial instruments *(continued)*

##### *Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### (i) Credit losses from financial instruments *(continued)*

##### *Basis of calculation of interest income*

Interest income recognised in accordance with Note 2(r)(ii)(b) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

##### *Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### (ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets; and
- investment in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

#### – *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

#### – *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

#### – *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (h) Credit losses and impairment of assets *(continued)*

#### (iii) *Interim financial reporting and impairment*

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(h)(i) and 2(h)(ii)).

### (i) Inventories and other contract costs

#### (i) *Inventories*

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

A right to recover returned goods is recognised for the right to recover products from customers sold with a right of return. It is measured in accordance with the policy set out in note 2(r)(i).

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (i) Inventories and other contract costs *(continued)*

#### (ii) **Other contract costs**

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(i)(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventories are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(r).

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in Note 2(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such case, a corresponding receivable would also be recognised (see Note 2(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

### (k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(j)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see Note 2(h)(i)).

### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, property pre-sale proceeds held by solicitor that are held for meeting short-term cash commitments, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(h)(i).

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

Refund liabilities arising from rights of returns and volume rebates are recognised in accordance with the policy set out in note 2(r)(i).

### (n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(t)).

### (o) Employee benefits

#### (i) **Short-term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### (ii) **Termination benefits**

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

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The Group recognised deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (p) Income tax *(continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (q) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services.

The Group is the principal for its revenue transactions and recognises revenue on a gross basis. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

#### (i) Revenue from contracts with customers

##### (a) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

##### (b) Rendering of services

Revenue is recognised when the service is rendered.

#### (ii) Revenue from other sources and other income

##### (a) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

##### (b) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(h)(i)).

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (r) Revenue and other income *(continued)*

#### (ii) Revenue from other sources and other income *(continued)*

##### (c) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss on a systematic basis over the useful life of the asset.

### (s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

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

The results of foreign operations are translated into RMB, the Group's reporting currency, at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

### (t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (u) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
  
- (b) An entity is related to the Group if 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 an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of 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).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(continued)*

### (v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 25 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

### (a) Impairment losses for non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of non-current assets as described in Note 2(h)(ii). When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the asset and could result in additional impairment charge or reversal of impairment in future years.

### (b) Expected credit losses for trade receivables

The Group estimates loss allowance at an amount equal to lifetime ECLs, which are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. If the financial conditions of the customers and debtors were to deteriorate, and these customers and debtors do not have assets or sources of income that could generate sufficient cash flows to repay the amounts, actual write-offs would be higher than estimated.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## **3 ACCOUNTING JUDGEMENTS AND ESTIMATES** *(continued)*

### **(c) Recognition of deferred tax assets**

Deferred tax assets in respect of deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the future operating performance of the Group and requires a significant level of judgement exercised by the management. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised in future years.

### **(d) Depreciation**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management of the Group reviews the estimated useful lives and residual values, if any, of the property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The determination of the useful lives and residual values, if any, are based on historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future years is adjusted if there are significant changes from previous estimates.

### **(e) Warranty provisions**

The Group makes provisions under the warranties it gives on sale of its cylinder blocks and cylinder heads after taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 4 REVENUE AND SEGMENT REPORTING

The Group is principally engaged in the design, development, manufacture and sale of cylinder blocks, cylinder heads and ancillary cylinder block components and others.

### (a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	2023 RMB'000	2022 RMB'000
<b>Revenue from contracts with customers within the scope of IFRS 15</b>		
Sales of cylinder blocks	573,315	482,462
Sales of cylinder heads	138,451	113,820
Sales of ancillary cylinder block components and others	6,721	4,205
	<b>718,487</b>	600,487

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographical market is disclosed in Notes 4(b)(i) and 4(b)(ii).

Revenue from customers with whom transactions have exceeded 10% of the Group's revenue are as follows:

	2023 RMB'000	2022 RMB'000
Customer A	157,697	158,597
Customer B	90,901	68,734
Customer C	89,031	72,639
Customer D	84,995	77,000

Details of concentration of credit risk arising from the Group's customers are set out in Note 25(a).

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 4 REVENUE AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting

The Group manages its businesses by products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Cylinder blocks: this segment includes primarily the research, development, manufacture and sale of cylinder blocks.
- Cylinder heads: this segment includes primarily the research, development, manufacture and sale of cylinder heads.
- Ancillary cylinder block components and others: this segment includes primarily the manufacture and sale of ancillary cylinder block components used in cylinder blocks and cylinder heads not covered by the Group's warranty policies.

### (i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2023 and 2022. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The Group's other operating income and expenses, such as other income, impairment loss on trade receivables and selling and administrative expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 4 REVENUE AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting *(continued)*

#### (i) Segment results, assets and liabilities *(continued)*

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2023 and 2022 is set out below.

	2023			Total RMB'000
	Cylinder blocks RMB'000	Cylinder heads RMB'000	Ancillary cylinder block components and others RMB'000	
Revenue from external customers recognised at a point in time	573,315	138,451	6,721	718,487
Reportable segment gross profit/(loss)	79,954	8,652	(900)	87,706

	2022			Total RMB'000
	Cylinder blocks RMB'000	Cylinder heads RMB'000	Ancillary cylinder block components and others RMB'000	
Revenue from external customers recognised at a point in time	482,462	113,820	4,205	600,487
Reportable segment gross profit/(loss)	82,434	15,403	(371)	97,466

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 4 REVENUE AND SEGMENT REPORTING *(continued)*

### (b) Segment reporting *(continued)*

#### (ii) Geographic information

The Group's revenue is substantially generated from sales to customers in the People's Republic of China (the "PRC"). The Group's operating assets are substantially situated in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

## 5 OTHER INCOME

	2023 RMB'000	2022 RMB'000
Government grants (including amortisation of deferred income, see Note 22)	13,593	22,762
Interest income	63	242
Rentals receivable from operating leases	1,848	–
Loss on disposal of property, plant and equipment	(648)	(126)
Others	309	324
	<b>15,165</b>	<b>23,202</b>

## 6 PROFIT BEFORE TAXATION

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

### (a) Finance costs

	2023 RMB'000	2022 RMB'000
Interest on interest-bearing borrowings (Note 17(b))	9,765	8,048
Bank charges and others	237	188
Interest on lease liabilities (Note 17(b))	4	13
	<b>10,006</b>	<b>8,249</b>

No borrowing costs have been capitalised for the year ended 31 December 2023 (2022: Nil).

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 6 PROFIT BEFORE TAXATION *(continued)*

### (b) Staff costs<sup>#</sup>

	2023 RMB'000	2022 RMB'000
Salaries, wages and other benefits	78,079	71,113
Contributions to defined contribution retirement plan	5,392	4,014
	<b>83,471</b>	75,127

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in a defined contribution retirement benefit plan managed by the local government authority. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the defined salaries level in the PRC (other than Hong Kong), from the above mentioned retirement plan at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the “**MPF Scheme**”) under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar (“**HK\$**”) 30,000. Contributions to the MPF Scheme vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

The Group has no further material obligation for payment of other retirement benefits beyond the above contributions.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 6 PROFIT BEFORE TAXATION *(continued)*

### (c) Other items

	2023 RMB'000	2022 RMB'000
Depreciation charge		
– owned property, plant and equipment (Note 11)	98,639	85,852
– right-of-use assets (Note 12)	2,636	2,861
(Reversal)/recognition of impairment losses on trade receivables (Note 25(a))	(5,348)	5,833
Short-term lease charges (Note 12)	210	265
Provision for warranties (Note 23)	4,943	4,248
Auditors' remuneration	1,950	2,000
Research and development costs	24,741	21,129
Cost of inventories <sup>#</sup> (Note 15(b))	630,781	503,021

# Cost of inventories includes RMB141,885,000 (2022: RMB124,676,000) relating to staff costs, depreciation and lease expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

### (a) Taxation in the consolidated statement of profit or loss represents:

	2023 RMB'000	2022 RMB'000
<b>Current taxation – PRC Corporate Income Tax</b> (Note 21(a))		
Provision for the year	5,359	2,072
<b>Deferred taxation</b> (Note 21(b))		
Origination and reversal of temporary differences	(3,872)	674
	1,487	2,746

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(continued)

### (b) Reconciliation between tax expenses and accounting profits at applicable tax rates:

	2023 RMB'000	2022 RMB'000
Profit before taxation	<b>12,755</b>	23,158
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	<b>3,601</b>	6,193
Under-provision in prior years	<b>3,959</b>	–
Tax effect of non-deductible expenses	<b>954</b>	685
Tax concessions (Note (iv))	<b>(5,281)</b>	(5,723)
Tax effect of withholding tax in connection with the retained profits distributed by a subsidiary of the Group	<b>(2,071)</b>	1,400
Tax effect of unused tax losses not recognised	<b>325</b>	191
Actual tax expense	<b>1,487</b>	2,746

Notes:

- (i) The Company was incorporated in the Cayman Islands and a subsidiary of the Group was incorporated in the British Virgin Islands (the “BVI”) which are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.
- (ii) The Company and a Hong Kong incorporated subsidiary of the Group are subject to Hong Kong Profits Tax according to the two-tiered profits tax rates regime for the year of assessment 2023/2024. The profits tax rate for the first HK\$2,000,000 of profits is taxed at 8.25%, and profits above that amount is subject to a tax rate of 16.5%. The provision for the Hong Kong Profits Tax for the Company and the subsidiary was calculated at the same basis in 2022.
- (iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2023 (2022: 25%).
- (iv) One of the Group’s subsidiaries established in the PRC has obtained approval from the relevant tax bureau to be taxed as an advanced and new technology enterprise for the calendar years from 2021 to 2023. Pursuant to the relevant tax regulations, this subsidiary is entitled to a preferential tax rate of 15%. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is also entitled to an additional tax deductible allowance calculated at 100% (2022: 100%) of its qualified research and development costs incurred.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2023				Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	
<b>Executive directors</b>					
Mr Meng Lianzhou	40	314	20	-	374
Mr Liu Zhanwen	40	126	8	-	174
Mr Zhang Yuexuan	40	281	15	-	336
Mr Liu Enwang	40	188	12	-	240
<b>Independent non-executive directors</b>					
Mr Ren Keqiang	103	-	-	-	103
Mr Yu Chun Kau	103	-	-	-	103
Mr Wan Ming	103	-	-	-	103
	<b>469</b>	<b>909</b>	<b>55</b>	<b>-</b>	<b>1,433</b>

	2022				Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	
<b>Executive directors</b>					
Mr Meng Lianzhou	40	312	20	-	372
Mr Liu Zhanwen	40	169	12	-	221
Mr Zhang Yuexuan	40	277	20	-	337
Mr Liu Enwang	40	191	15	-	246
<b>Independent non-executive directors</b>					
Mr Ren Keqiang	107	-	-	-	107
Mr Yu Chun Kau	107	-	-	-	107
Mr Wan Ming	107	-	-	-	107
	<b>481</b>	<b>949</b>	<b>67</b>	<b>-</b>	<b>1,497</b>

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 8 DIRECTORS' EMOLUMENTS *(continued)*

No emoluments were paid by the Group to the directors during the year as an inducement to join or upon joining the Group or as compensation for loss of office. The executive directors agreed to waive part of director's fee for the year ended 31 December 2023 and agreed to receive the director's fee of RMB40,000 per annum with effect from 1 January 2023. Save as disclosed herein, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2022: none) is executive director whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other four (2022: five) individuals are as follow:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	2,299	2,479
Discretionary bonuses	33	40
Retirement scheme contributions	17	3
	<b>2,349</b>	2,522

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	2023 Number of individuals	2022 Number of individuals
HK\$Nil to HK\$1,000,000	4	5

No emoluments were paid by the Group to the five highest paid individuals during the year as an inducement to join or upon joining the Group or as compensation for loss of office.

## 10 BASIC AND DILUTED EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of RMB11,268,000 (2022: RMB20,412,000) and the weighted average of 800,000,000 ordinary shares in issue during the year (2022: 800,000,000 ordinary shares).

### (b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the years ended 31 December 2023 and 2022.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 11 PROPERTY, PLANT AND EQUIPMENT

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and others RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost:</b>					
At 1 January 2022	273,183	695,893	19,208	230,881	1,219,165
Additions	457	11,053	2,447	143,990	157,947
Transfer in/(out)	1,048	285,116	94	(286,258)	–
Disposals	–	(2,974)	(434)	–	(3,408)
<b>At 31 December 2022</b>	<b>274,688</b>	<b>989,088</b>	<b>21,315</b>	<b>88,613</b>	<b>1,373,704</b>
At 1 January 2023	<b>274,688</b>	<b>989,088</b>	<b>21,315</b>	<b>88,613</b>	<b>1,373,704</b>
Additions	<b>189</b>	<b>364</b>	<b>1,774</b>	<b>106,571</b>	<b>108,898</b>
Transfer in/(out)	<b>23,892</b>	<b>102,715</b>	<b>–</b>	<b>(126,607)</b>	<b>–</b>
Disposals	<b>–</b>	<b>(4,706)</b>	<b>(1,791)</b>	<b>–</b>	<b>(6,497)</b>
<b>At 31 December 2023</b>	<b>298,769</b>	<b>1,087,461</b>	<b>21,298</b>	<b>68,577</b>	<b>1,476,105</b>
<b>Accumulated depreciation:</b>					
At 1 January 2022	(86,213)	(359,293)	(13,474)	–	(458,980)
Charge for the year	(13,315)	(71,258)	(1,279)	–	(85,852)
Written back on disposals	–	532	337	–	869
<b>At 31 December 2022</b>	<b>(99,528)</b>	<b>(430,019)</b>	<b>(14,416)</b>	<b>–</b>	<b>(543,963)</b>
At 1 January 2023	<b>(99,528)</b>	<b>(430,019)</b>	<b>(14,416)</b>	<b>–</b>	<b>(543,963)</b>
Charge for the year	<b>(13,580)</b>	<b>(83,771)</b>	<b>(1,288)</b>	<b>–</b>	<b>(98,639)</b>
Written back on disposals	<b>–</b>	<b>3,221</b>	<b>1,653</b>	<b>–</b>	<b>4,874</b>
<b>At 31 December 2023</b>	<b>(113,108)</b>	<b>(510,569)</b>	<b>(14,051)</b>	<b>–</b>	<b>(637,728)</b>
<b>Net book value:</b>					
At 31 December 2023	<b>185,661</b>	<b>576,892</b>	<b>7,247</b>	<b>68,577</b>	<b>838,377</b>
At 31 December 2022	175,160	559,069	6,899	88,613	829,741

The Group's property, plant and equipment are mainly located in the PRC.

At 31 December 2023, property, plant and equipment of the Group with carrying amount of RMB78,234,000 (2022: RMB40,608,000) have been pledged as collateral for the Group's interest-bearing borrowings (see Note 19(c)).

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 12 RIGHT-OF-USE ASSETS

	Land use rights RMB'000	Leased office RMB'000	Total RMB'000
<b>Cost:</b>			
At 1 January 2022	129,159	511	129,670
Additions	–	593	593
At 31 December 2022	129,159	1,104	130,263
At 1 January 2023	<b>129,159</b>	<b>1,104</b>	<b>130,263</b>
Disposals	–	(1,104)	(1,104)
At 31 December 2023	<b>129,159</b>	–	<b>129,159</b>
<b>Accumulated depreciation:</b>			
At 1 January 2022	(20,568)	(449)	(21,017)
Charge for the year	(2,548)	(313)	(2,861)
At 31 December 2022	(23,116)	(762)	(23,878)
At 1 January 2023	<b>(23,116)</b>	<b>(762)</b>	<b>(23,878)</b>
Charge for the year	<b>(2,549)</b>	<b>(87)</b>	<b>(2,636)</b>
Written back on disposals	–	849	849
At 31 December 2023	<b>(25,665)</b>	–	<b>(25,665)</b>
Net book value:			
At 31 December 2023	<b>103,494</b>	–	<b>103,494</b>
At 31 December 2022	106,043	342	106,385

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 12 RIGHT-OF-USE ASSETS (continued)

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2023 RMB'000	2022 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Land use rights	2,549	2,548
– Leased office	87	313
	2,636	2,861
Interest on lease liabilities	4	13
Expense relating to short-term leases	210	265

The right-of-use assets mainly represent the premiums paid by the Group for use of land situated in the PRC and the leased office premises in Hong Kong. The lease terms of land use rights range from 50 to 70 years and leased office is 2 years.

At 31 December 2023, right-of-use assets of the Group with carrying amount of RMB 73,319,000 (2022: RMB59,336,000) have been pledged as collateral for the Group's short-term interest-bearing borrowings (see Note 19(c)).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Note 17(c) and Note 20, respectively.

## 13 OTHER NON-CURRENT ASSETS

In 2019 and 2020, the Company entered into agreements with a target company (the "Target Company") and a vendor (the "Vendor"), which is the sole shareholder of the Target Company. Other non-current assets as at 31 December 2023 represents payment for an investment to a Target Company. Pursuant to the Agreements, the Company will acquire the 10.7% equity interests of the Target Company from the Vendor (the "Acquisition"). The Target Company is mainly engaged in the design and manufacturing of power systems, braking systems, vehicle spare parts and components. The consideration for the acquisition in relation to the 10.7% equity interest amounting to EUR5,000,000 which was paid by the Group in 2020. By the end of 31 December 2023 and up to the date of these financial statements, the Acquisition has not yet been finalised.

Subsequent to the end of the reporting date, the Company initiated certain legal actions towards the Target Company with a view to facilitate the re-negotiation with the Vendor. It is the intention of the Directors to enter into a supplemental agreement with the Vendor to proceed with the Acquisition in 2024. The Directors are of the view that the progress has been made subsequent to the end of the reporting date and anticipate that the re-negotiation could be reached within twelve months after the end of the reporting period.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 14 INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of subsidiaries	Place of incorporation and business	Particulars of registered/ issued and paid-up capital	Proportion of ownership interest			Principal activities
			The Group's effective interest	Held by the Company	Held by a subsidiary	
Hebei Ruifeng Technology Co., Ltd ("Hebei Ruifeng") (Note (i)) 河北瑞豐科技有限公司	China's Mainland	Note (ii)	100%	–	100%	Design, manufacture and sale of cylinder blocks and cylinder heads
Hebei Ruisheng Technology Co., Ltd (Note (i)) 河北瑞盛科技有限公司	China's Mainland	Note (iii)	100%	–	100%	Design of automobile parts
Shiyan Ruisheng Technology Co., Ltd (Note (i)) 十堰瑞盛科技有限公司	China's Mainland	Note (iv)	100%	–	100%	Design of automobile parts
Hebei Ruifeng Power Technology Co., Ltd. (Note (i)) 河北瑞豐動力科技有限公司	China's Mainland	Note (v)	100%	–	100%	Investment holding
Turbo Group Investment Limited	Hong Kong	HK\$1, 1 share of HK\$1	100%	–	100%	Investment holding
Long Teng Holdings Limited	The BVI	United States Dollar ("US\$") 1, 1 share of US\$1	100%	100%	–	Investment holding

### Notes:

- (i) The English translation of the names are for identification only. The official names of these entities are in Chinese. These entities were registered as limited liability companies under the laws and regulations in the PRC.
- (ii) This entity was registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC. The registered capital is RMB200,000,000 and the paid-up capital is RMB190,924,000 as at 31 December 2023.
- (iii) This entity was registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC. The registered capital is RMB10,000,000 and the paid-up capital is RMBNil as at 31 December 2023.
- (iv) This entity is a limited company and incorporated under the laws and regulations in the PRC. The registered capital is RMB10,000,000 and the paid-up capital is RMBNil as at 31 December 2023.
- (v) This entity was registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC. The registered capital and the paid-up capital are HK\$200,000,000.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 15 INVENTORIES

### (a) Inventories in the consolidated statement of financial position comprise:

	2023 RMB'000	2022 RMB'000
Raw materials	79,801	80,024
Work in progress	84,463	79,636
Finished goods	130,382	130,201
	<b>294,646</b>	289,861
Less: write-down of inventories	<b>(21,530)</b>	(16,804)
	<b>273,116</b>	273,057

### (b) The analysis of the amount of inventories recognised as an expense and included in the consolidated statement of profit or loss is as follows:

	2023 RMB'000	2022 RMB'000
Carrying amount of inventories sold	626,055	506,919
Write-down/(reversal of write-down) of inventories	4,726	(3,898)
	<b>630,781</b>	503,021

## 16 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2023 RMB'000	31 December 2022 RMB'000
Trade receivables	213,720	198,801
Less: loss allowance (Note 25(a))	<b>(38,971)</b>	(44,319)
	<b>174,749</b>	154,482
Bills receivable	95,772	102,604
Financial assets measured at amortised cost	270,521	257,086
Other receivables and prepayments	34,695	43,132
Deductible value added tax	14,117	17,128
	<b>319,333</b>	317,346

Note: All of the trade and other receivables are expected to be recovered or recognised as expenses within one year.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 16 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

(continued)

### (a) Ageing analysis

The ageing analysis of trade receivables and bills receivable, included in trade and other receivables, based on the invoice date and net of loss allowance of the Group is as follows:

	2023 RMB'000	2022 RMB'000
Less than 1 month	129,044	100,339
1 to 3 months	108,044	108,324
3 to 6 months	33,088	46,156
Over 6 months	345	2,267
	<b>270,521</b>	257,086

The Group's customers are mainly automobile and engine manufacturers in the PRC. Further details on the Group's credit policy and credit risk arising from trade and other receivables are set out in Note 25(a).

### (b) Transfer of financial assets

The Group receives short-term bank acceptance notes from its customers as a method of settlement of goods sold. The Group is entitled to receive the full amount of face values from the issuing banks upon the maturities of these notes, which generally range from 3 to 12 months from the dates of issuance.

During the year of 2023, the Group discounted certain bank acceptance notes at banks, and endorsed certain bank acceptance notes to its suppliers and other creditors for settlement of the Group's trade and other payables on a full recourse basis. Upon the above discounting or endorsement, the Group has derecognised the bills receivable in their entirety. These derecognised bank acceptance notes have maturity dates of less than six months from the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these notes and has discharged its obligation of the payables to its suppliers and other creditors. The Group assessed that the discounted and endorsed bank acceptance notes were issued by highly-rated banks, the credit risks were relatively insignificant and the Group was not exposed to the relative interest risk. At 31 December 2023, the Group's maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the bills on maturity dates amounted to RMB76,891,000 (2022: RMB47,733,000).

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 17 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

### (a) Cash and cash equivalents comprise:

	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
Cash and cash equivalents in consolidated cash flow statement	<b>20,555</b>	11,550
Restricted deposit with a bank (Note (ii))	<b>20,000</b>	–
Cash at bank and on hand	<b>40,555</b>	11,550

Notes:

- (i) As at 31 December 2023, cash and cash equivalents situated in China's Mainland amounted to RMB 20,383,000 (2022: RMB4,983,000). Remittance of funds out of China's Mainland is subject to relevant rules and regulations of foreign exchange control.
- (ii) The Group issued short-term bank acceptance notes to its suppliers as a method of settlement of payment, which is guaranteed by the deposit amounted to RMB20,000,000 as at 31 December 2023 (2022: RMB Nil) in the issuing bank.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 17 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(continued)

### (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings RMB'000 (Note 19)	Interest payables RMB'000	Lease liabilities RMB'000 (Note 20)	Interim dividends RMB'000	Total RMB'000
<b>At 1 January 2023</b>	<b>235,446</b>	<b>232</b>	<b>347</b>	<b>6,242</b>	<b>242,267</b>
<b>Changes from financing cash flows:</b>					
Proceeds from new interest-bearing borrowings	228,816	-	-	-	228,816
Repayment of interest-bearing borrowings	(220,970)	-	-	-	(220,970)
Capital element of lease rentals paid	-	-	(347)	-	(347)
Interest element of lease rentals paid	-	-	(4)	-	(4)
Finance costs paid	(9,533)	(232)	-	-	(9,765)
Dividends paid	-	-	-	(17,281)	(17,281)
Total changes from financing cash flows	(1,687)	(232)	(351)	(17,281)	(19,551)
<b>Other changes:</b>					
Finance costs (Note 6(a))	9,765	-	4	-	9,769
Interim dividends declared	-	-	-	11,039	11,039
Total other changes	9,765	-	4	11,039	20,808
<b>At 31 December 2023</b>	<b>243,524</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>243,524</b>

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 17 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(continued)

### (b) Reconciliation of liabilities arising from financing activities (continued)

	Interest-bearing borrowings RMB'000 (Note 19)	Interest payables RMB'000	Lease liabilities RMB'000 (Note 20)	Interim dividends RMB'000	Total RMB'000
<b>At 1 January 2022</b>	160,000	213	65	1,906	162,184
<b>Changes from financing cash flows:</b>					
Proceeds from new interest-bearing borrowings	254,446	–	–	–	254,446
Repayment of interest-bearing borrowings	(179,000)	–	–	–	(179,000)
Capital element of lease rentals paid	–	–	(357)	–	(357)
Interest element of lease rentals paid	–	–	(13)	–	(13)
Finance costs paid	–	(8,217)	–	–	(8,217)
Dividends paid	–	–	–	(7,837)	(7,837)
<b>Total changes from financing cash flows</b>	<b>75,446</b>	<b>(8,217)</b>	<b>(370)</b>	<b>(7,837)</b>	<b>59,022</b>
<b>Other changes:</b>					
Increase in lease liabilities from entering into new leases during the period	–	–	639	–	639
Finance costs (Note 6(a))	–	8,236	13	–	8,249
Interim dividends declared	–	–	–	12,173	12,173
<b>Total other changes</b>	<b>–</b>	<b>8,236</b>	<b>652</b>	<b>12,173</b>	<b>21,061</b>
<b>At 31 December 2022</b>	<b>235,446</b>	<b>232</b>	<b>347</b>	<b>6,242</b>	<b>242,267</b>

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 17 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(continued)

### (c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2023 RMB'000	2022 RMB'000
Within operating cash flows		
– Lease rentals paid relating to short-term leases	(210)	(265)
Within financing cash flows		
– Lease rentals paid	(351)	(370)
	<b>(561)</b>	<b>(635)</b>

## 18 TRADE AND OTHER PAYABLES

	2023 RMB'000	2022 RMB'000
Trade payables	260,812	250,803
Bills payable	20,000	–
Trade and bill payables	<b>280,812</b>	250,803
Payables for construction of property, plant and equipment	67,828	60,203
Payables for staff related costs	7,823	6,386
Contract liabilities (Note (iii))	8,876	6,755
Others	11,412	15,805
Financial liabilities measured at amortised cost	<b>376,751</b>	339,952
Payables for other taxes	257	37
	<b>377,008</b>	<b>339,989</b>

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 18 TRADE AND OTHER PAYABLES *(continued)*

Notes:

- (i) All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.
- (ii) The ageing analysis of trade and bills payables, which are included in trade and other payables, based on the invoice date, is as follows:

	2023 RMB'000	2022 RMB'000
Less than 1 month	114,457	68,154
1 to 3 months	60,926	80,863
3 to 6 months	43,731	50,672
Over 6 months	61,698	51,114
	<b>280,812</b>	250,803

- (iii) Contract liabilities represents advances from customers for the goods to be transferred by the Group. Movements in contract liabilities are set out below:

	2023 RMB'000	2022 RMB'000
Balance at 1 January	6,755	5,028
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(6,755)	(5,028)
Advances received from customers	8,876	6,755
Balance at 31 December	<b>8,876</b>	6,755

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 19 INTEREST-BEARING BORROWINGS

### (a) The Group's short-term interest-bearing borrowings comprise:

	2023 RMB'000	2022 RMB'000
Bank loans		
Secured by property, plant and equipment and right-of-use assets	84,202	220,970
Secured by bills receivable	-	9,864
	<b>84,202</b>	230,834
Add: current portion of long-term bank and other borrowings (Note 19(b))	16,997	2,435
	<b>101,199</b>	233,269

### (b) The Group's long-term interest-bearing borrowings comprise:

	2023 RMB'000	2022 RMB'000
Bank and other borrowings		
Secured by property and plant and equipment and right-of-use assets	159,322	4,612
Less: current portion of long-term bank and other borrowings (Note 19(a))	(16,997)	(2,435)
	<b>142,325</b>	2,177

The Group's long-term bank and other borrowings are repayable as follows:

	2023 RMB'000	2022 RMB'000
Within 1 year or on demand	16,997	2,435
After 1 year but within 2 years	112,825	2,177
After 2 years but within 5 years	29,500	-
	<b>159,322</b>	4,612

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 19 INTEREST-BEARING BORROWINGS *(continued)*

- (c) The aggregate carrying amount of property, plant and equipment, right-of-use assets and bills receivables pledged for the Group's interest-bearing borrowings is as follows:

	2023 RMB'000	2022 RMB'000
Property, plant and equipment	78,234	40,608
Right-of-use assets	73,319	59,336
Bills receivable	–	9,864
	<b>151,553</b>	<b>109,808</b>

- (d) Certain of the Group's interest-bearing borrowings are subject to the fulfilment of covenants relating to financial ratios commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the interest-bearing borrowings would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 25(b). At 31 December 2023, none of the covenants had been breached (2022: None).

## 20 LEASE LIABILITIES

At 31 December, the lease liabilities were repayable as follows:

	2023 RMB'000	2022 RMB'000
Within 1 year or on demand	–	276
After 1 year but within 2 years	–	71
	–	347

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (a) Prepaid income tax in the consolidated statement of financial position represents:

	2023 RMB'000	2022 RMB'000
Prepaid income tax at 1 January	12,242	11,551
Provision for the year (Note 7(a))	(5,359)	(2,072)
Income tax paid	2,735	2,763
Reclassification	(4,757)	-
<b>Prepaid income tax at 31 December</b>	<b>4,861</b>	<b>12,242</b>

### (b) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Assets						Liabilities		Total RMB'000
	Government grants and subsequent amortisation RMB'000	Provision for warranties RMB'000	Write-down of inventories RMB'000	Credit loss allowance RMB'000	Accumulated tax loss RMB'000	Depreciation allowances in depreciation RMB'000	Sub-Total RMB'000	Retained profits to be distributed (Note) RMB'000	
At 1 January 2022	5,995	756	3,105	5,773	-	-	15,629	(5,121)	10,508
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(985)	20	(584)	875	-	-	(674)	-	(674)
At 1 January 2023	5,010	776	2,521	6,648	-	-	14,955	(5,121)	9,834
(Charged)/credited to the consolidated statement of profit or loss (Note 7(a))	(885)	(78)	709	(802)	1,457	-	401	3,471	3,872
Reclassification	-	-	-	-	-	4,757	4,757	-	4,757
At 31 December 2023	4,125	698	3,230	5,846	1,457	4,757	20,113	(1,650)	18,463

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

### (b) Deferred tax assets and liabilities recognised *(continued)*

Note:

The balance of deferred tax liability amounted to RMB5,121,000 as at 1 January 2023 represents deferred tax liability provided in relation to the PRC withholding tax.

In 2020, The directors of the Company were of the opinion that the retained profits of Hebei Ruifeng (Previously known as Hebei Ruifeng Cylinder Co., Ltd.) of RMB51,207,000 would be distributed to Turbo Group Investment Limited, which is subject to a PRC withholding tax rate of 10% and therefore a deferred tax liability of RMB5,121,000 had been provided in previous years.

Pursuant to a board resolution of Hebei Ruifeng in December 2023, Hebei Ruifeng will distribute RMB16,500,000 to Turbo Group Investment Limited, and the remaining retained profit of RMB34,707,000 will not be distributed. Accordingly, the deferred tax liability of RMB3,471,000 provided have been reversed.

### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), at 31 December 2023, the Group has not recognised deferred tax assets in respect of unused tax losses of RMB8,751,000 (2022: RMB7,832,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

### (d) Deferred tax liabilities not recognised

Except for deferred tax liabilities recognised in Note 21(b), taxable temporary differences relating to undistributed profits of subsidiaries of the Group established in the PRC amounted to RMB675,826,000 at 31 December 2023 (2022: RMB645,454,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

## 22 DEFERRED INCOME

	2023 RMB'000	2022 RMB'000
At 1 January	33,401	39,967
Credited to the consolidated statement of profit or loss	(5,902)	(6,566)
At 31 December	27,499	33,401

Deferred income represents government grants received to compensate the Group's cost of construction of property, plant and equipment. The government grants are amortised over the useful lives of the related property, plant and equipment.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 23 PROVISION FOR WARRANTIES

	<b>2023</b>	2022
	<b>RMB'000</b>	RMB'000
At 1 January	<b>5,170</b>	5,037
Provisions made (Note 6(c))	<b>4,943</b>	4,248
Provisions utilised	<b>(5,461)</b>	(4,115)
At 31 December	<b>4,652</b>	5,170

Under the terms of the Group's sales agreements, the Group will rectify any product defects arising within the warranty period, which primarily ranges from one to three years from the date of customer acceptance. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of products sold which are still within the warranty period. The amount of provision takes into account the Group's recent claim experience and is only made where a warranty claim is probable.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 24 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000 (Note 24(b))	Share premium RMB'000 (Note 24(d)(i))	Exchange reserve RMB'000 (Note 24(d)(iii))	Accumulated losses RMB'000	Total equity RMB'000
<b>Balance at 1 January 2022</b>	66,425	116,410	531	(12,313)	171,053
Profit for the year	-	-	-	12,384	12,384
Other comprehensive income	-	-	14,743	-	14,743
Dividends declared in respect of the current year	-	(12,173)	-	-	(12,173)
Total comprehensive income	-	(12,173)	14,743	12,384	14,954
<b>Balance at 31 December 2022 and 1 January 2023</b>	<b>66,425</b>	<b>104,237</b>	<b>15,274</b>	<b>71</b>	<b>186,007</b>
Loss for the year	-	-	-	(2,029)	(2,029)
Other comprehensive income	-	-	4,891	-	4,891
Dividends declared in respect of the current year	-	(11,039)	-	-	(11,039)
Total comprehensive income	-	(11,039)	4,891	(2,029)	(8,177)
<b>Balance at 31 December 2023</b>	<b>66,425</b>	<b>93,198</b>	<b>20,165</b>	<b>(1,958)</b>	<b>177,830</b>

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 24 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS *(continued)*

### (b) Share capital

Movements in the Company's issued share capital are as follows:

	2023		2022	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
<b>Ordinary shares, issued and fully paid:</b>				
At 1 January and 31 December	800,000,000	66,425	800,000,000	66,425

### (c) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2023 RMB'000	2022 RMB'000
Interim dividend declared and paid of HK\$1.5 cents per ordinary share (2022: HK\$1.7 cent per ordinary share)	11,039	12,173

The board of directors of the Company resolved to declare an interim dividend of HK\$1.5 cents per share for the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$1.7 cents) to those shareholders whose names are on the register of members of the Company on 27 October 2023.

Subsequent to the end of the reporting period, the board of directors of the Company resolved to declare a final dividend of HK\$12,000,000, at HK\$1.5 cents per share for the year ended 31 December 2023, which is subject to approval by the shareholders of the Company at the Annual General Meeting (2022: Nil). The final dividend proposed after the end of the reporting period has not been recognised as a liability as at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

The directors of the Company did not propose a dividend in respect of year ended 31 December 2022.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 24 CAPITAL, RESERVES AND DISTRIBUTIONS/DIVIDENDS *(continued)*

### (d) Nature and purpose of reserves

#### (i) **Share premium**

The application of the share premium is governed by Section 34 of the Companies Law, Chapter 22 (as revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

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

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established and operated in the China's Mainland are required to transfer 10% of their respective net profits to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the respective subsidiaries and is non-distributable other than in liquidation.

#### (iii) **Exchange reserve**

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(s).

### (e) Capital management

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

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and interest rate arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks and financial institutions with high credit standings, for which the Group considers to be low.

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

#### ***Trade receivables***

The Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Subject to the results of credit evaluation, the Group generally grants credit period of 30 to 90 days to its customers. The Group performs ongoing credit evaluation of its customers' financial condition and generally does not obtain collateral from customers.

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 15.7% (2022: 17.4%) and 54.7% (2022: 68.3%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.



# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (a) Credit risk *(continued)*

#### **Trade receivables** *(continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2023 RMB'000	2022 RMB'000
At 1 January	44,319	38,486
Credit losses recognised during the year	2,276	6,359
Credit losses written-back during the year	(7,624)	(526)
At 31 December	<b>38,971</b>	44,319

### (b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2023				Carrying amount RMB'000
	Contractual undiscounted cash flow				
	Within 1 year or on demand RMB'000	Over 1 year but within 2 years RMB'000	Over 2 years RMB'000	Total RMB'000	
Trade and other payables measured at amortised cost	367,875	-	-	367,875	367,875
Interest-bearing borrowings	108,341	115,787	30,085	254,213	243,524
	<b>476,216</b>	<b>115,787</b>	<b>30,085</b>	<b>622,088</b>	<b>611,399</b>

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (b) Liquidity risk *(continued)*

	2022				Carrying amount RMB'000
	Contractual undiscounted cash flow				
	Within 1 year or on demand RMB'000	Over 1 year but within 2 years RMB'000	Over 2 years RMB'000	Total RMB'000	
Trade and other payables measured at amortised cost	339,952	–	–	339,952	339,952
Interest-bearing borrowings	228,307	2,255	–	230,562	225,582
Lease liabilities	284	71	–	355	347
	568,543	2,326	–	570,869	565,881

### (c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

#### (i) Interest rate risk profile

The following table, as reported interesting-bearing to the management of the Group, details the interest rate risk profile of the Group's borrowings at the end of the reporting period:

	Notional amount	
	2023 RMB'000	2022 RMB'000
<b>Fixed rate borrowings:</b>		
Lease liabilities	–	347
Interest-bearing borrowings	95,524	165,582
	95,524	165,929
<b>Variable rate borrowing:</b>		
Interest-bearing borrowings	148,000	60,000
Net exposure	243,524	225,929

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

### (c) Interest rate risk *(continued)*

#### (ii) Sensitivity analysis

At 31 December 2023, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB1,131,000 (2022: RMB510,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to cash flow interest rate risk. The impact is estimated as an annualised impact on interest exposure of such a change in interest rates. The analysis is performed on the same basis as 2022.

### (d) Fair value measurement

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values at 31 December 2023 and 2022.

## 26 COMMITMENTS

Capital commitments outstanding at 31 December 2023 not provided for in the financial statements were as follows:

	2023 RMB'000	2022 RMB'000
Commitments in respect of property, plant and equipment: Contracted for	22,520	20,525

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 27 MATERIAL RELATED PARTY TRANSACTIONS

### Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2023 RMB'000	2022 RMB'000
Short-term employee benefits	3,525	3,230
Contributions to defined contribution retirement plan	32	19
	<b>3,557</b>	<b>3,249</b>

Total remuneration is included in "staff costs" (see Note 6(b)).

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 28 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2023 RMB'000	2022 RMB'000
<b>Non-current assets</b>			
Interests in a subsidiary	14	201,214	198,345
Other non-current assets	13	23,941	23,380
		<b>225,155</b>	221,725
Other receivables and prepayments		367	497
Cash and cash equivalents		132	24
		<b>499</b>	521
<b>Current liability</b>			
Other payables		47,824	36,239
<b>NET ASSETS</b>		<b>177,830</b>	186,007
<b>CAPITAL AND RESERVES</b>			
Share capital	24	66,425	66,425
Reserves		111,405	119,582
<b>TOTAL EQUITY</b>		<b>177,830</b>	186,007

Approved and authorised for issue by the board of directors on 28 March 2024.

**Meng Lianzhou**  
Chairman

**Liu Enwang**  
Director

# Notes to the Financial Statements

(Expressed in RMB unless otherwise indicated)

## 29 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend, the details of which are disclosed in Note 24(c).

## 30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2023, the directors of the Company consider the immediate parent of the Group to be Dragon Rise, which is incorporated in the BVI. This entity does not produce financial statements available for public use. The directors of the Company consider the ultimate holding parties of the Group to be Mr Meng Lianzhou, Mr Liu Zhanwen, Mr Zhang Yuexuan and Mr Liu Enwang.

## 31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2023

Up to the date of issue of these financial statements, the IASB has issued a number of new or amended standard, which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
Amendments to IAS 1, Presentation of financial statements: Classification of liabilities as current or non-current (“2020 amendments”)	1 January 2024
Amendments to IAS 1, Presentation of financial statements: Non-current liabilities with covenants (“2022 amendments”)	1 January 2024
Amendments to IFRS 16, Leases: Lease liability in a sale and leaseback	1 January 2024
Amendments to IAS 7, Statement of cash flows and IFRS 7, Financial Instruments: Disclosures: Supplier finance arrangements	1 January 2024
Amendments to IAS 21, The effects of changes in foreign exchange rates: Lack of exchangeability	1 January 2025

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.