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京西重工國際有限公司

**BEIJINGWEST INDUSTRIES INTERNATIONAL LIMITED**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2339)

## FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The board of directors (the “**Board**”) of BeijingWest Industries International Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2022 with comparative figures for the year ended 31 December 2021. These final results have been reviewed by the Audit Committee of the Company.

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
<b>REVENUE</b>	5	<b>2,478,380</b>	2,601,955
Cost of sales		<u>(2,044,288)</u>	<u>(2,190,162)</u>
Gross profit		<b>434,092</b>	411,793
Other income and gains	5	<b>46,346</b>	40,948
Selling and distribution expenses		<b>(50,376)</b>	(16,927)
Administrative expenses		<b>(154,510)</b>	(156,204)
Reversal of/(provision for) impairment losses on financial assets	6	<b>132</b>	(1,323)
Research and development expenses		<b>(237,437)</b>	(246,139)
Other operating expenses		<b>(13,022)</b>	(727)
Finance costs	7	<u><b>(15,054)</b></u>	<u>(18,364)</u>
<b>PROFIT BEFORE TAX</b>	6	<b>10,171</b>	13,057
Income tax expense	8	<u><b>(15,056)</b></u>	<u>(22,362)</u>
<b>LOSS FOR THE YEAR</b>		<u><b>(4,885)</b></u>	<u>(9,305)</u>
Attributable to: Owners of the Company		<u><b>(4,885)</b></u>	<u>(9,305)</u>
<b>LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
Basic and diluted ( <i>HK cents per share</i> )	10	<u><b>(0.85)</b></u>	<u>(1.62)</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>LOSS FOR THE YEAR</b>	<u><b>(4,885)</b></u>	<u><b>(9,305)</b></u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
<i>Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(55,159)	(46,126)
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>		
Remeasurement gain on defined benefit plans	<u>11,054</u>	<u>18,668</u>
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF INCOME TAX</b>	<u><b>(44,105)</b></u>	<u><b>(27,458)</b></u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<u><b>(48,990)</b></u>	<u><b>(36,763)</b></u>
Attributable to:		
Owners of the Company	<u><b>(48,990)</b></u>	<u><b>(36,763)</b></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>403,853</b>	452,885
Right-of-use assets		<b>299,268</b>	324,781
Goodwill		<b>896</b>	4,956
Deferred tax assets		<b>66,833</b>	74,517
Other non-current assets	<i>11</i>	<b>193,746</b>	217,924
<b>Total non-current assets</b>		<b>964,596</b>	1,075,063
<b>CURRENT ASSETS</b>			
Inventories		<b>177,083</b>	195,938
Trade receivables	<i>12</i>	<b>339,823</b>	328,218
Prepayments, other receivables and other assets	<i>13</i>	<b>332,306</b>	261,941
Cash and cash equivalents		<b>122,780</b>	184,565
<b>Total current assets</b>		<b>971,992</b>	970,662
<b>CURRENT LIABILITIES</b>			
Trade payables	<i>14</i>	<b>322,777</b>	335,970
Other payables and accruals	<i>15</i>	<b>215,397</b>	154,055
Income tax payables		<b>20,635</b>	1,812
Bank borrowings		–	65,215
Defined benefit obligations	<i>16</i>	<b>3,406</b>	3,267
Lease liabilities		<b>33,610</b>	36,365
Provision		<b>27,798</b>	28,885
<b>Total current liabilities</b>		<b>623,623</b>	625,569
<b>NET CURRENT ASSETS</b>		<b>348,369</b>	345,093
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,312,965</b>	1,420,156

	<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 <i>HK\$'000</i>
<b>NON-CURRENT LIABILITIES</b>			
Other payables and accruals	<i>15</i>	<b>24,971</b>	29,355
Defined benefit obligations	<i>16</i>	<b>77,829</b>	98,086
Lease liabilities		<b>272,589</b>	299,030
Deferred tax liabilities		<b>89,213</b>	96,305
Loan from a holding company		<b>415</b>	442
<b>Total non-current liabilities</b>		<b><u>465,017</u></b>	<u>523,218</u>
<b>NET ASSETS</b>		<b><u>847,948</u></b>	<u>896,938</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	<i>17</i>	<b>57,434</b>	57,434
Reserves		<b>790,514</b>	839,504
<b>TOTAL EQUITY</b>		<b><u>847,948</u></b>	<u>896,938</u>

## NOTES TO FINANCIAL STATEMENTS

### 1. CORPORATE AND GROUP INFORMATION

BeijingWest Industries International Limited (the “**Company**”) is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

During the year, the Company and its subsidiaries (collectively the “**Group**”) were principally involved in the manufacture, sale and trading of automotive parts and components, and the provision of technical services.

As at 31 December 2021, the immediate holding company of the Company is BWI Company Limited, which is incorporated in Hong Kong with limited liability. In the opinion of the directors of the Company (the “**Directors**”), the ultimate holding company of the Company is Shougang Group Co., Ltd. (formerly known as “Shougang Corporation”), which is a state-owned enterprise established in the People’s Republic of China (“**PRC**”).

On 5 September 2022, Shougang Group Co., Ltd and BeijingWest Smart Mobility Zhangjiakou Automotive Electronics Co., Ltd# (京西智行張家口汽車電子有限公司) (“**BWSM**”) signed an equity transfer agreement for the transfer of 55.45% equity interest in BeijingWest Industries Co., Ltd (“**BWI**”). Upon completion of this transaction on 19 September 2022, BWSM indirectly hold 52.55% shareholding interest in the Company through holding equity interest in BWI. In the opinion of the Directors, the ultimate holding company of the Company has been changed from Shougang Group Co., Ltd. to BWSM.

# *For identification purpose only*

## Information about subsidiaries

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

Name	Date and place of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
BWI France S.A.S.	France 13 August 2009	EUR2,002,500	–	100	Provision of research and technical services
BWI UK Limited	United Kingdom 16 June 2009	GBP5,938,975	–	100	Manufacture and sale of automotive parts and components
BWI Poland Technologies sp. z.o.o.	Poland 12 March 2009	PLN55,538,150	–	100	Manufacture and sale of automotive parts and components
BWI Czech Republic s.r.o.	Czech 20 May 2015	CZK140,000,000	–	100	Manufacture and sale of automotive parts and components

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

### 2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention and are presented in Hong Kong dollars. All values are rounded to the nearest thousand except when otherwise indicated.

#### Basis of consolidation

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

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

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

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

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to <i>HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and the impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting (the “**Conceptual Framework**”) issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.



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

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

### 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024

<sup>3</sup> No mandatory effective date yet determined but available for adoption

<sup>4</sup> As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

<sup>5</sup> As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

<sup>6</sup> An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

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

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

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

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

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

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

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

### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

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

#### **Judgements**

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

#### ***Transfer of construction in progress to property, plant and equipment***

Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use. Thereafter, depreciation is calculated on a straight-line basis to write off the cost of each item of such property, plant and equipment to its residual value over its estimated useful life. It requires management's judgement and estimation to determine when the project under construction is substantially ready for its intended use, i.e., when it is capable of commercial operation based on the overall assessment of trial operation results.

## **Estimation uncertainty**

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

### ***Useful lives and residual values of items of property, plant and equipment***

The Group's management determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

### ***Leases – Estimating the incremental borrowing rate***

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

### ***Impairment of non-financial assets (other than goodwill)***

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

### ***Capitalisation of pre-production costs***

The Group capitalises pre-production costs when those costs are related to the contracts with customers, generated or enhanced the resources used to satisfy performance obligation and are expected to be recovered.

The Group's management needs to judge and estimate whether such capitalised costs can be recovered, based on experience, historical data and estimation of the profitability of the contract.

### ***Deferred tax assets***

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

### ***Defined benefit plan***

The Group has recognised the defined benefit pension plan as a liability. The Group's obligations are determined using actuarial valuations, which rely on various assumptions and conditions. The assumptions used in actuarial valuation reports include discount rates, the growth rates of the benefits and other factors. The deviation from the actual result and the actuarial result will affect the accuracy of related accounting estimates. Even though management is of the view that the above assumptions are reasonable, any changes in condition of assumptions will still affect the estimated liability amounts of employee pension benefit obligations. Further details are set out in note 16 in the notes to financial statements.

### ***Provision for expected credit losses on trade receivables***

The Group uses a provision matrix to calculate expected credit losses ("ECLs") for trade receivables. The provision rates are based on the days past due for various customer segments with similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (e.g., the fluctuation of the unit price of steel and restriction policy in motor industries) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 12 in the notes to financial statements.

### ***Provision against inventories***

Management reviews the condition of inventories of the Group at the end of the reporting period and makes provision against inventories. Management estimates the net realisable value based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at the end of the reporting period.

### ***Net realisable value of inventories***

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of technical innovations, and competitor actions in response to severe industry cycle. Management reassesses these estimates at the end of each reporting period.

### ***Provision for warranties***

Provision for product warranties granted by the Group is recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

## **4. OPERATING SEGMENT INFORMATION**

For management purposes, the Group's operating activities are originated from a single operating segment, which is the manufacture, sale and trading of automotive parts and components, and the provision of technical services. Therefore, no analysis by operating segment is presented.

### **Products and services**

#### ***Revenue from external customers***

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Sale of industrial products	2,283,267	2,444,180
Technical service income	<u>195,113</u>	<u>157,775</u>
	<u><u>2,478,380</u></u>	<u><u>2,601,955</u></u>

### **Geographical information**

#### **(a) *Revenue from external customers***

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
United Kingdom	685,727	1,040,378
Germany	597,648	527,282
United States	631,500	468,497
Mainland China	62,783	67,313
Other countries	<u>500,722</u>	<u>498,485</u>
	<u><u>2,478,380</u></u>	<u><u>2,601,955</u></u>

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

(b) *Non-current assets*

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Poland	664,664	690,110
Czech	155,383	189,055
United Kingdom	52,748	98,939
Other countries	<u>24,968</u>	<u>22,442</u>
	<u><u>897,763</u></u>	<u><u>1,000,546</u></u>

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

**Information about major customers**

During the reporting period, the revenues which were generated from four (2021: two) of the Group's customers and were individually accounted for more than 10% of the Group's total revenue are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A	439,346	725,504
Customer B	327,655	290,854
Customer C	291,844	230,663*
Customer D	<u>261,895</u>	<u>167,954*</u>
	<u><u>1,320,740</u></u>	<u><u>1,414,975</u></u>

\* The relevant revenue for the year ended 31 December 2021 did not exceed 10% of the Group's revenue.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents: (1) the net invoiced value of goods sold, net of value-added tax and government surcharges and excludes sale taxes, and after allowance for returns and trade discounts; and (2) an appropriate proportion of contract revenue of technical and consultancy service contracts.

An analysis of the Group's revenue is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Revenue from contracts with customers</b>		
Sale of industrial products	2,283,267	2,444,180
Technical service income	<u>195,113</u>	<u>157,775</u>
	<u><b>2,478,380</b></u>	<u><b>2,601,955</b></u>

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Timing of revenue recognition</b>		
Industrial products and services transferred at a point of time	2,473,435	2,596,728
Services transferred over time	<u>4,945</u>	<u>5,227</u>
	<u><b>2,478,380</b></u>	<u><b>2,601,955</b></u>

An analysis of the Group's other income and gains is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Other income</b>		
Bank interest income	322	147
Profit from sales of scrap materials	19,735	21,672
Foreign exchange differences, net	17,008	7,578
Others	<u>3,764</u>	<u>4,772</u>
	<u><b>40,829</b></u>	<u><b>34,169</b></u>
<b>Gains</b>		
Gain on disposal of items of property, plant and equipment	5,475	6,112
Government grants	<u>42</u>	<u>667</u>
	<u><b>5,517</b></u>	<u><b>6,779</b></u>
	<u><b>46,346</b></u>	<u><b>40,948</b></u>



## 6. PROFIT BEFORE TAX

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

	Notes	2022 HK\$'000	2021 HK\$'000
Cost of inventories sold and services provided		2,044,288	2,192,457
Depreciation of property, plant and equipment		67,265	74,811
Impairment of property, plant and equipment*		3,212	–
Depreciation of right-of-use assets		33,323	36,911
Impairment of goodwill*		3,742	–
Lease payments not included in the measurement of lease liabilities		227	1,932
Auditors' remuneration		3,778	4,281
Employee benefit expense (including directors' and chief executive's remuneration):			
Wages, salaries, severances and benefits		438,630	468,613
Defined benefit obligation expenses	16(c)	3,915	6,291
		<u>442,545</u>	<u>474,904</u>
Research and development costs		237,437	246,139
Less: Staff costs included in research and development costs		<u>(111,414)</u>	<u>(115,609)</u>
Research and development costs, net of staff costs		<u>126,023</u>	<u>130,530</u>
Gain on disposal of items of property, plant and equipment	5	(5,475)	(6,112)
Written off pre-production costs*		5,051	–
Impairment losses on financial assets, net:			
(Reversal)/recognised of impairment of trade receivables, net	12	(421)	1,001
Impairment of prepayments, other receivables and other assets, net	13	289	322
		<u>(132)</u>	<u>1,323</u>
Provision for obsolete inventories**		2,738	458
Recognise/(write-back) provision for warranties, net		19,368	(2,386)
Foreign exchange differences, net		<u>(17,008)</u>	<u>(7,578)</u>

\* The other operating expenses in the consolidated statement of profit or loss comprise of the impairment of goodwill, impairment of property, plant and equipment, written off pre-production costs and other miscellaneous expenses. The amount of other miscellaneous expenses amounted to HK\$1,017,000 for the year ended 31 December 2022 and HK\$727,000 for the year ended 31 December 2021. The balance of provision for impairment of goodwill and property, plant and equipment as at 31 December 2022 was HK\$3,742,000 (31 December 2021: Nil) and HK\$3,212,000 (31 December 2021: Nil), respectively.

\*\* The provision for obsolete inventories is included in "cost of sales" in the consolidated statement of profit or loss. The balance of provision for impairment of inventories as at 31 December 2022 was HK\$7,350,000 (31 December 2021: HK\$5,012,000).

## 7. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank loans and other loans	5,682	8,253
Interest on lease liabilities	<u>9,372</u>	<u>10,111</u>
	<u><b>15,054</b></u>	<u><b>18,364</b></u>

## 8. INCOME TAX

No provision for Hong Kong profits tax has been made for the year ended 31 December 2022 as the Group did not generate any assessable profits arising in Hong Kong during the year (year ended 31 December 2021: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates. The rates of tax prevailing in the countries in which the Group operates include:

	2022 (%)	2021 (%)
Luxembourg	24.94	24.94
Poland	19.00	19.00
United Kingdom	19.00	19.00
France	26.50	26.50
Germany	29.83	29.83
Italy	27.90	27.90
Czech	<u>19.00</u>	<u>19.00</u>

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current – elsewhere	14,712	11,282
Deferred tax	<u>344</u>	<u>11,080</u>
Total tax charge for the year	<u><b>15,056</b></u>	<u><b>22,362</b></u>

A reconciliation of the tax expense applicable to profit before tax at the Hong Kong statutory rate to the tax expense at the effective tax rate, and a reconciliation of the Hong Kong statutory tax rate to the effective tax rate, are as follows:

	2022		2021	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit before tax	<u>10,171</u>		<u>13,057</u>	
Income tax charge at the Company's statutory tax rate of 16.5%	1,678	16.5	2,154	16.5
Effect of different income tax rates for foreign operations	2,480	24.4	4,895	37.5
Income not subject to tax	(1,427)	(14.0)	(5,524)	(42.3)
Expenses not deductible for tax purposes	20,369	200.2	24,073	184.4
Utilisation of prior year tax losses	–	–	(1,476)	(11.3)
Withholding tax (refund)/expense	(3,274)	(32.2)	4,006	30.7
Adjustment for current income tax of previous periods	(5,160)	(50.7)	(7,103)	(54.4)
Impact of change in the applicable income tax rate on deferred tax	(33)	(0.3)	1,439	11.0
Others	<u>423</u>	<u>4.1</u>	<u>(102)</u>	<u>(0.8)</u>
Tax charge at the effective rate	<u>15,056</u>	<u>148.0</u>	<u>22,362</u>	<u>171.3</u>

## 9. DIVIDEND

The Board decided on 30 March 2023 not to propose any final dividend in respect of the year ended 31 December 2022. (2021: Nil).

## 10. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 574,339,068 (2021: 574,339,068) in issue during the year.

No adjustment has been made to the loss per share amounts presented for the years ended 31 December 2022 and 2021 in respect of a dilution as the Group did not have any potential ordinary shares in issue during the years ended 31 December 2022 and 2021.

## 11. OTHER NON-CURRENT ASSETS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contract performance deposits	56,215	57,358
Pre-production costs	<u>171,069</u>	<u>191,602</u>
	227,284	248,960
Within one year ( <i>Note 13</i> )	<u>(33,538)</u>	<u>(31,036)</u>
	<u><u>193,746</u></u>	<u><u>217,924</u></u>

## 12. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	342,705	332,007
Impairment	<u>(2,882)</u>	<u>(3,789)</u>
Total	<u><u>339,823</u></u>	<u><u>328,218</u></u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to three months for the customers. Each third-party customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has control to minimise the credit risk. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by analysis by customer. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. They are stated net of provisions.

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 3 months	338,992	326,982
3 months to 1 year	<u>831</u>	<u>1,236</u>
	<u><u>339,823</u></u>	<u><u>328,218</u></u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At beginning of the year	(3,789)	(3,062)
Impairment losses reversed/(recognized) ( <i>Note 6</i> )	421	(1,001)
Amount written off as uncollectible	114	18
Exchange realignment	<u>372</u>	<u>256</u>
At end of the year	<u>(2,882)</u>	<u>(3,789)</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

<b>As at 31 December 2022</b>	<b>Not yet due</b>	<b>Overdue</b>	<b>Total</b>
Expected credit loss rate	0.50%	82.04%	0.84%
Carrying amount ( <i>HK\$'000</i> )	341,272	1,433	342,705
Expected credit losses ( <i>HK\$'000</i> )	<u>1,706</u>	<u>1,176</u>	<u>2,882</u>
As at 31 December 2021	Not yet due	Overdue	Total
Expected credit loss rate	0.50%	78.34%	1.14%
Carrying amount ( <i>HK\$'000</i> )	329,272	2,735	332,007
Expected credit losses ( <i>HK\$'000</i> )	<u>1,646</u>	<u>2,143</u>	<u>3,789</u>

### 13. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Prepayments	10,002	9,358
Deposits, other receivables and others	46,629	41,407
Pre-production costs – current ( <i>Note 11</i> )	33,538	31,036
Due from fellow subsidiaries	235,566	152,884
Due from a holding company	7,779	28,175
	<u>333,514</u>	<u>262,860</u>
Impairment	<u>(1,208)</u>	<u>(919)</u>
	<u><u>332,306</u></u>	<u><u>261,941</u></u>

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At beginning of the year	(919)	(597)
Impairment losses recognised, net ( <i>Note 6</i> )	<u>(289)</u>	<u>(322)</u>
At end of the year	<u><u>(1,208)</u></u>	<u><u>(919)</u></u>

Set out below is the information about the credit risk exposure on the Group's due from related parties using a provision matrix:

As at 31 December 2022	Not yet due	Overdue	Total
Expected credit loss rate	0.5%	–	0.5%
Adjusted carrying amount* ( <i>HK\$'000</i> )	243,345	–	243,345
Expected credit losses ( <i>HK\$'000</i> )	<u>1,208</u>	<u>–</u>	<u>1,208</u>
	<u><u>1,208</u></u>	<u><u>–</u></u>	<u><u>1,208</u></u>
	Not yet due	Overdue	Total
As at 31 December 2021			
Expected credit loss rate	0.5%	–	0.5%
Adjusted carrying amount* ( <i>HK\$'000</i> )	181,059	–	181,059
Expected credit losses ( <i>HK\$'000</i> )	<u>919</u>	<u>–</u>	<u>919</u>
	<u><u>919</u></u>	<u><u>–</u></u>	<u><u>919</u></u>

\* The adjusted carrying amount represents the gross carrying amount excluding prepayments, deposits, other receivables and others, and the current portion of pre-production costs with no default risk.

#### 14. TRADE PAYABLES

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 3 months	322,582	333,239
3 months to 1 year	68	2,662
Over 1 year	<u>127</u>	<u>69</u>
	<u><u>322,777</u></u>	<u><u>335,970</u></u>

The trade payables are non-interest-bearing and are normally settled on 30 to 90 days' terms.

#### 15. OTHER PAYABLES AND ACCRUALS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contract liabilities ( <i>Note (a)</i> )	29,868	32,511
Other creditors and accruals ( <i>Note (b)</i> )	39,588	31,827
Other tax payables	11,588	16,774
Accrued salaries, wages and benefits	61,775	48,377
Due to fellow subsidiaries	71,180	22,040
Due to a holding company	<u>26,369</u>	<u>31,881</u>
	240,368	183,410
Portion classified as current liabilities	<u>(215,397)</u>	<u>(154,055)</u>
Non-current portion	<u><u>24,971</u></u>	<u><u>29,355</u></u>

*Notes:*

(a) Details of contract liabilities are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Engineering technical service fees	<u>29,868</u>	<u>32,511</u>
Total contract liabilities	<u><u>29,868</u></u>	<u><u>32,511</u></u>

Contract liabilities include short-term advances received to deliver manufactured automatic products and technical services.

(b) Other creditors are unsecured, non-interest-bearing and repayable on demand.

## 16. DEFINED BENEFIT OBLIGATIONS

The Group has defined benefit pension plans, covering substantially all of its qualified employees in Poland, France and Germany. The amounts of employee benefit obligations recognised in the statement of financial position represent the present values of the unfunded obligations.

The defined benefit obligations were determined based on actuarial valuations performed by Wills Towers Watson Consulting Company Limited, FACTUM S.C. and Sbp, independent actuaries located in Germany, Poland and France, respectively, using the projected unit credit method.

The components of net benefit expenses in profit or loss and the amounts recognised in the statement of financial position are summarised as follows:

- (a) The provisions for defined benefit obligations recognised in the consolidated statement of financial position are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Present value of unfunded obligations	81,235	101,353
Portion classified as current liabilities	<u>(3,406)</u>	<u>(3,267)</u>
Non-current portion	<u>77,829</u>	<u>98,086</u>

- (b) The movements of the defined benefit obligations are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At beginning of the year	101,353	129,467
Current service costs	2,135	5,201
Interest cost on benefit obligations	1,780	1,090
Benefits paid during the year	(3,622)	(2,429)
Remeasurement gains recognised in other comprehensive income*	(13,526)	(23,090)
Exchange realignment	<u>(6,885)</u>	<u>(8,886)</u>
At end of the year	<u>81,235</u>	<u>101,353</u>

- \* Deferred tax assets of HK\$2,472,000 were reversed (31 December 2021: HK\$4,422,000) for the remeasurement gains. The remeasurement gains after deferred tax amounted to HK\$11,054,000 (31 December 2021: HK\$18,668,000), which were recognised in other comprehensive income.



(c) The net expenses recognised in the consolidated statement of profit or loss are analysed as follows:

	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
Current service costs	<b>2,135</b>	5,201
Interest cost on benefit obligations	<b>1,780</b>	1,090
Net benefit expenses	<b><u>3,915</u></b>	<b><u>6,291</u></b>

(d) The principal actuarial assumptions used in valuing the provisions for defined benefit obligations at the end of the reporting period are as follows:

	<b>2022</b>		
	<b>Germany</b>	<b>Poland</b>	<b>France</b>
	%	%	%
Discount rate	<b>3.30</b>	<b>6.45</b>	<b>3.26</b>
Rate of salary increases	<b>3.25</b>	<b>5.00</b>	<b>2.50</b>
Rate of price inflation	<b>2.25</b>	N/A	N/A
Pension increase rate	<b>2.35</b>	<b>0.40</b>	N/A
	<b><u>2.35</u></b>	<b><u>0.40</u></b>	<b><u>N/A</u></b>
	<b>2021</b>		
	Germany	Poland	France
	%	%	%
Discount rate	1.10	3.20	0.80
Rate of salary increases	3.00	4.00	2.00
Rate of price inflation	2.00	2.50	N/A
Pension increase rate	2.00	N/A	N/A
	<b><u>2.00</u></b>	<b><u>N/A</u></b>	<b><u>N/A</u></b>

The average duration of the provision for defined benefits at the end of the reporting period is as follows:

	<b>2022</b>		
	<b>Germany Years</b>	<b>Poland Years</b>	<b>France Years</b>
Average life expectancy			
Plan 1	<b>12.60</b>	<b>10.00</b>	<b>19.61</b>
Plan 2	<b>2.70</b>	<b>18.00</b>	<b>N/A</b>
	<u>          </u>	<u>          </u>	<u>          </u>
	<b>2021</b>		
	<b>Germany Years</b>	<b>Poland Years</b>	<b>France Years</b>
Average life expectancy			
Plan 1	14.90	10.66	19.86
Plan 2	4.20	14.61	NA
	<u>          </u>	<u>          </u>	<u>          </u>

- (e) The quantitative sensitivity analysis of the provisions for defined benefits as at the end of the reporting period is as follows:

**2022**

	<b>Increase in rate %</b>	<b>Decrease in provisions for defined benefits HK\$'000</b>	<b>Decrease in rate %</b>	<b>Increase in provisions for defined benefits HK\$'000</b>
Discount rate	<b>1</b>	<b>(5,298)</b>	<b>1</b>	<b>6,196</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**2021**

	<b>Increase in rate %</b>	<b>Decrease in provisions for defined benefits HK\$'000</b>	<b>Decrease in rate %</b>	<b>Increase in provisions for defined benefits HK\$'000</b>
Discount rate	<b>1</b>	<b>(8,240)</b>	<b>1</b>	<b>9,997</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the provisions for defined benefits as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

## 17. ISSUED CAPITAL

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each (2021: 2,000,000,000 ordinary shares of HK\$0.10 each)	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
574,339,068 ordinary shares of HK\$0.10 each (2021: 574,339,068 ordinary shares of HK\$0.10 each)	<u>57,434</u>	<u>57,434</u>

## 18. COMMITMENTS

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contracted, but not provided for:		
Plant and machinery	<u>65,294</u>	<u>75,710</u>

## 19. EVENTS AFTER THE REPORTING PERIOD

On 7 February 2023, the Board planned to stop the production of all products in the plant located in UK (the “UK Plant”) in stages from the second quarter of 2023 onwards and complete by end of June 2023. As most of the original orders and production lines of the UK Plant can be transferred to the Group’s plants located in Poland and the Czech Republic, this will enable the Group to consolidate its resources more effectively. The closure of the UK Plant will incur one-off expenses relating to severance payment and the transference of the production lines of the UK Plant to other plants.

## **FINAL DIVIDEND**

The Board does not recommend the payment of any final dividend in respect of the year (2021: Nil).

## **CLOSURE OF REGISTER OF MEMBERS FOR DETERMINING THE ENTITLEMENT TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING**

Latest time for lodging transfers of shares . . . . . 4:30 p.m. on 19 May 2023 (Friday)

Book close dates . . . . . 22 May 2023 (Monday) to  
25 May 2023 (Thursday)  
(both days inclusive)

Annual General Meeting (the “AGM”) . . . . . 25 May 2023 (Thursday)

In order to qualify for the entitlement to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration before the latest time as set out above.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OPERATIONAL REVIEW

BeijingWest Industries International Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) involves in manufacture, sales and trading of automotive parts and components and provision of technical services. The core products of the Group were suspension products.

The Group’s automotive suspension products were mainly utilized on premium passenger vehicles, which were manufactured by our plants in Europe. There are three major plants in Poland, the United Kingdom (“**UK**”) and the Czech Republic, which manufacture and assemble suspension products for their customers.

The Group develops and maintains strong relationships with its customers, who are mainly well-known European automobile manufacturers, therefore the Group well understood the technical requirements of our customers and has the expertise on the manufacturing process for premium passenger vehicles.

The Group purchases its raw materials and components mainly from the suppliers in Europe, which are selected based on certain factors, including the history of relationship with the Group, quality and price of the products, delivery time, and after-sales services. The Group maintains stable relationships with its major suppliers and does not rely on any single supplier for any type of raw materials and components.

### Global Pandemic

In March 2020, the World Health Organization made an assessment and characterized the worldwide outbreak of novel coronavirus (COVID-19) as a pandemic (“**Pandemic**”) and reminded all countries to activate and scale up emergency response mechanisms. With the increasing number of confirmed cases of COVID-19 in the second quarter of 2020, various countries in Europe imposed containment and mitigation measures, including travel bans, quarantines, “stay-at-home” orders, and similar measures for people to significantly restrict daily activities and for business to reduce or cease normal operations. These measures led to disruption and temporary suspension of the operations of the Group’s plants in the UK, Poland and the Czech Republic. Starting in June 2020, the Group implemented new safety measures at the plants and took a phased approach to resume the manufacturing operations, and the manufacturing operations of all the plants were resumed in June 2020. Since our operations have resumed up to now, each of the Group’s plants has been under normal operation.

It has been three years since the outbreak of the Pandemic. People around the world have become accustomed to living normally with the Pandemic. The vaccination rates in major countries have reached a very high level. Moreover, the number of cases of infection are high, which means many people have acquired natural immunity. Therefore, countries around the world have lifted pandemic-related restrictions as they get on the road to full normalcy.

## **FINANCIAL REVIEW**

### **Revenue**

For the year ended 31 December 2022, the Group recorded revenue of HK\$2,283.3 million from manufacture and sales of suspension products. While for the year ended 31 December 2021, the Group recorded revenue of HK\$2,444.2 million from manufacture and sales of suspension products. The decrease in revenue for the year ended 31 December 2022 is mainly due to a change in economic environment and a slowdown in production of European automobiles, leading to a decrease in orders received by the Group.

For the year ended 31 December 2022, the Group also recorded revenue of HK\$195.1 million in provision of technical services (year ended 31 December 2021: HK\$157.8 million).

### **Gross Profit and Gross Profit Margin**

For the year ended 31 December 2022, the gross profit and gross profit margin of the Group were HK\$434.1 million and 17.5% respectively. While for the year ended 31 December 2021, the gross profit and gross profit margin of the Group were HK\$411.8 million and 15.8% respectively. The increase in gross profit was mainly due to an improvement in gross margin, especially the contribution from Poland. During the year, our plant in Poland successfully sold more controlled suspension products, whose gross profit margin is higher than that of traditional passive suspension products. In addition, most suspension products are priced in US dollars or Euros, while their costs are mostly denominated in Zloty, the local currency of Poland. Therefore, as the exchange rate of US dollar/Euro against Polish Zloty (“**PLN**”) rose, sales revenue increased while the cost of sales decreased, thus leading to an increase in the Group’s gross profit margin.

The gross profit and gross profit margin were partially affected by the performance of the plant located at Czech. As the plant in the Czech Republic was still at its commencement stage in face of the Pandemic, rendering it unable to reach its efficiency as scheduled and now being at a loss position. Its performance will be able to improve in the future when the production volume ramps up and the utilization of raw materials and production efficiency improve due to economy of scale.

## **Other Income and Gains**

Other income and gains of the Group for the year ended 31 December 2022 increased by 13.2% to HK\$46.3 million (year ended 31 December 2021: HK\$40.9 million), which was mainly due to the increase of gain on foreign exchange.

## **Selling and Distribution Expenses**

Selling and distribution expenses of the Group for the year ended 31 December 2022 significantly increased by 197.6% to HK\$50.4 million (year ended 31 December 2021: HK\$16.9 million), mainly due to a substantial reversal of warranty provision in last year, which is absent in the current year. In addition, freight expenses increased significantly during the year due to delay in the delivery of some components by the suppliers. Express air transportation was required instead of the normal sea transportation in order to meet the time requirement of the customers in the United States, thus causing significant increase in freight expenses. Selling and distribution expenses mainly consisted of delivery expenses, salary and welfare for sales personnel and warranty expenses.

## **Administrative Expenses**

Administrative expenses of the Group for the year ended 31 December 2022 decreased by 1.1% to HK\$154.5 million (year ended 31 December 2021: HK\$156.2 million). The decrease was mainly because tighten cost control was in place to mitigate the unfavorable effects brought by the Pandemic. Administrative expenses mainly consisted of salaries for administrative staff and management service fee charged by related companies.

## **Research and Development Expenses**

Research and development expenses of the Group for the year ended 31 December 2022 decreased by 3.5% to HK\$237.4 million (year ended 31 December 2021: HK\$246.1 million). The decrease was also because of the in place of tighten cost control. Research and development expenses mainly consisted of salaries for technical staff and technical service fee charged by related companies.

## **Finance Costs**

Finance costs of the Group for the year ended 31 December 2022 decreased by 18.0% to HK\$15.1 million (year ended 31 December 2021: HK\$18.4 million) mainly because the Group has repaid all the bank loans during the year, thus the bank loan interest expenses was reduced. Finance costs mainly represented interest on bank loans obtained by subsidiaries in Europe and interest on lease liabilities.

## **Loss for the Year Attributable to Owners of the Company**

In summary of the above, for the year ended 31 December 2022, the loss attributable to owners of the Company is approximate to HK\$4.9 million (year ended 31 December 2021: HK\$9.3 million).

## **Liquidity and Financial Resources**

Our business requires a significant amount of working capital, which is primarily used to finance the purchase of raw materials, remuneration of employees, capital spending, research and development and other expenses. The working capital and other capital requirements were satisfied principally by cash generated from internal operations, and moderate level of bank loans (if necessary) as well.

The Group was operating in a net cash outflow position for the year ended 31 December 2022, but there was net cash generated from operating activities amounted to HK\$114.0 million (year ended 31 December 2021: net cash used in operating activities amounted to HK\$66.1 million). As at 31 December 2022, the Group maintained cash and cash equivalents of HK\$122.8 million (as at 31 December 2021: HK\$184.6 million).

## **Indebtedness**

During the year, the Group repaid all its bank borrowings. As a result, the Group did not have any balance of bank borrowings as at 31 December 2022.

As at 31 December 2021, the Group had bank borrowings of HK\$65.2 million, which were obtained by subsidiaries in Europe and were denominated in Euro with an interest of 1-month EURIBOR plus 2.8% per annum and PLN with an interest of 1-month WIBOR plus 2.6% per annum.

The Group's gearing ratio (measured as total bank borrowings over total assets) as at 31 December 2022 was 0% (as at 31 December 2021: 3.2%). The Company would keep monitoring the financial and liquidity position of the Group closely, and carry out appropriate financing strategy for the Group in accordance with the change of the financial market from time to time.

## **Pledge of Assets**

As at 31 December 2022 and 31 December 2021, there were no assets of the Group being pledged.



## **Foreign Exchange Exposure**

The Group's transactions are mainly denominated in Euro, US Dollar and the local currencies of our operations, which include PLN, Great British Pound Sterling and Czech Koruna. The Group will closely monitor the foreign exchange market and take appropriate and effective measures from time to time to reduce any negative impact from exchange-rate risk to the furthest extent.

## **Capital and Other Commitments**

Save as disclosed in note 18 in the notes to financial statements, the Group and the Company had no other commitments as at 31 December 2022 and 31 December 2021.

## **Contingent Liabilities**

As at 31 December 2022, the Group and the Company did not have any significant contingent liabilities.

## **OTHER INFORMATION**

### **Environmental, Health and Safety**

The Group is dedicated to protecting the health of people, natural resources and the global environment, and has adopted the hazardous material control programs and chemical material assessment procedures. The Group has obtained all necessary permits under applicable environmental protection laws for its production facilities.

The Group strictly complies with the laws and regulations that exert great influence on the Group such as various environmental protection laws relating to emissions to land, air and water and waste production from its production facilities. Various hazardous material control programs and chemical material assessment procedures have also been adopted to meet the applicable legal requirements.

The Group also emphasizes the health and safety of its employees and is committed to providing a safe and healthy working environment for the benefits of its staff. In order to reduce the contact with occupational hazard factors of employees, the Group provides training of occupational health and safety and prevention and control of occupational disease for all relevant employees. The Group also adopted human resources policies, which provide the health and safety initiatives such as: (i) identifying and communicating health and safety initiatives; (ii) monitoring trends in statistics for occupational injuries or illnesses; (iii) complying with health and safety regulations; and (iv) promoting incident reduction through investigation, assessments, corrective actions and proactive intervention. The Group has also complied with applicable social, health and work safety laws and regulations in all material aspects.

The Group also emphasizes continuous learning and hopes employees can grow together with the Group. Diversified training and development opportunities are provided for all employees to help them reach their full potential.

## **Prospects**

The Group involved in the manufacture and sales of automotive parts and components and trading of automotive parts and components in Europe.

During the year under review, the outbreak of Russian-Ukrainian war brought extreme tensions to the European geopolitics, hence we would operate under a challenging and volatile environment since the Group's plants in Poland, UK and the Czech Republic are located in Europe. The Russian-Ukrainian war, coupled with high global inflation, has led to energy shortages and soaring prices. As a result, the prices of industrial raw materials and labor costs have notably risen, which has put pressure on operating costs. In order to curb inflation, the US Federal Reserve and central banks around the world have implemented tight fiscal policies, including raising interest rates and shrinking balance sheets, which have clouded the global economic outlook. On the other hand, the COVID-19 pandemic that had been raging for three years has gradually subsided. Almost all major countries in the world are on the road to normalcy, thus giving new hope to the future economy.

The Group relies on premium passenger vehicle manufacturers as customers or potential customers of its products. Its business performance largely depends on the continuing growth of the automotive industry in Europe. The overall market demand for cars may be affected by factors such as regional economic conditions, fuel price and end customers' expectations on future economic situation. These factors are beyond the Group's control, and may affect the annual production of automobiles by passenger vehicle manufacturers, which possibly in turn affect the sales and profitability of the Group's products. Affected by the pandemic and the slowdown of economy, passenger vehicle production in Europe in 2022 was only approximately 13,143,000, the annual output remained, as in 2021, at a low level of approximately 13,000,000 vehicles, one of the lowest numbers in recent years. Compared to the pre-pandemic level of 2019, it decreased substantially by 29.1%. In addition, according to the forecast of the International Monetary Fund, the eurozone will see a GDP growth of just 0.7% in 2023, which indicates that the European economy is still not out of the woods. This will bring great challenges to the Group's business. The future operating conditions, and hence performance, of the Group will be highly dependent on the development of inflation, that of the Russian-Ukrainian war, and even the impact of a potential resurgence of the pandemic.

The Group has accumulated extensive technical knowledge and developed a high degree of technical expertise with a consistent focus on research and development. We believe that our technical expertise, the long-term relationship with different vehicle manufacturers, as well as the well-understanding of the requirements of the vehicle manufacturers will enable us to capture more market opportunities and develop products that meet the technical requirements of the vehicle manufacturers. It would be a strong support for the Group's long-term development.

The Group believes that the continuing investment on research and development as well as engineering activities is vitally significant for the Group to maintain and improve its leadership position in the industry. It would contribute greatly to the improvement of the Group's competitiveness over other competitors. Meanwhile, it keeps evolving in the automotive industry to cater to the change of requirements from customers. To keep pace with our customers, the Group will endeavor to collaborate closely with the vehicle manufacturers and develop innovative solutions to better serve our customers.

As the lease of the Group's plant located in Luton in the United Kingdom will expire at the end of 2023, it was facing the relocation problem. After careful consideration of various factors, it was decided to stop the production of all products in the UK Plant in stages from the second quarter of 2023 onwards and complete by end of June 2023. The site of the plant will then be handed over to the landlord before end of 2023. The Board is of the view that the closure of the UK Plant will save the huge expenses of the Group required to relocate the UK Plant, while most of the original orders and production lines of the UK Plant can be transferred to the plants located in Krosno in Poland and Cheb in the Czech Republic of the Group. This will enable the Group to consolidate its resources more effectively, reduce its fixed administrative expenses such as leasing and staff costs, and increase its overall capacity utilization rate. It benefits the Group's operations in the long run, and is in the best interests of the Group and its shareholders as a whole.

The Group will aim to maintain a solid and healthy growth and development. Despite the continued pricing pressure from customers and the increase in commodity prices, the Group is capable of maintaining its gross profit margin at a reasonable level. The Group is confident that it will be able to maintain a sustainable business development in the long run. With a view to improve long-term profitability and shareholders' value, the Company will seriously evaluate and review the business of the Group, and optimize the business structure of the Group.

## **Employees and Remuneration Policy**

As at 31 December 2022, the Group had approximately 2,070 employees. During the year ended 31 December 2022, the total employees' cost was HK\$442.5 million. Remuneration packages of the employees are determined by reference to the qualifications and experience of the employee concerned and are reviewed annually by the management with reference to market conditions and individual performance. The Group offers a comprehensive and competitive remuneration, retirement scheme and benefit package to its employees. Discretionary bonus is offered to the Group's staff depending on their performance. The Group has defined benefit pension plans covering substantially all of its qualified employees in Poland, France and Germany. The Group has also adopted a mandatory provident fund scheme as required under the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the Laws of Hong Kong) for its employees in Hong Kong.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or otherwise) during the year.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange was revised, re-arranged, and renamed to "Corporate Governance Code" effective from 1 January 2022.

The Company has complied with the Corporate Governance Code during the financial year ended 31 December 2022.

Details of the Company's compliance with the provisions of the Corporate Governance Code during the year will be set out in the Corporate Governance Report in the 2022 annual report of the Company.

## **SCOPE OF WORK**

The financial figures in respect of the preliminary announcement of the Group's consolidated results for the year ended 31 December 2022 have been agreed with the Group's auditor, Ernst & Young, Certified Public Accountants. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

## **APPRECIATION**

On behalf of the Board, I would like to extend our sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to all management and staff for their hard work and dedication throughout the year.

By Order of the Board  
**BeijingWest Industries International Limited**  
**Dong Xiaojie**  
*Chairman*

30 March 2023

*As at the date of this announcement, the Board comprises Mr. Dong Xiaojie (Chairman), Mr. Chen Zhouping (Managing Director), Mr. Li Zhi (Non-executive Director), Mr. Tam King Ching, Kenny (Independent Non-executive Director), Mr. Yip Kin Man, Raymond (Independent Non-executive Director) and Mr. Chan Pat Lam (Independent Non-executive Director).*