LONKING 龙工

LONKING HOLDINGS LIMITED
中國龍工控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 3339

2022
ANNUAL REPORT

*For Identification Purpose Only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors
Mr. Li San Yim *(Chairman* and
Chief Executive Officer)
Mr. Chen Chao
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

Non-executive directors
Ms. Ngai Ngan Ying

Independent non-executive directors
Dr. Qian Shizheng
Mr. Wu Jian Ming
Mr. Yu Tai Wei

AUDIT COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Mr. Yu Tai Wei
Ms. Ngai Ngan Ying

REMUNERATION COMMITTEE

Dr. Qian Shizheng *(Chairman)*
Ms. Ngai Ngan Ying

NOMINATION COMMITTEE

Mr. Yu Tai Wei *(Chairman)*
Ms. Ngai Ngan Ying

EXECUTIVE COMMITTEE

Mr. Li San Yim *(Chairman and Chief Executive Officer)*
Mr. Chen Chao
Mr. Zheng Ke Wen
Mr. Yin Kun Lun

COMPANY SECRETARY

Mr. Chu Shun

HEAD OFFICE

No. 26 Mingyi Road, Xinqiao,
Songjiang Industrial,
Shanghai (201612), PRC

REGISTERED OFFICE

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

INVESTOR RELATIONS

Ms. Lv Zhen Zhen
LZZ@lonking.cn
Tel: 86-21-3760 2000 (5676)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1802, 18th Floor
West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

WEBSITE

http://www.lonking.cn

STOCK CODE

3339

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A,
Block 3, Building D, P.O. Box 1586,
Gardenia Court, Camana Bay,
Grand Cayman, KY1-1100,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

SOLICITORS

Sidley Austin
39/F, Two International Finance Centre
8 Finance Street Central, Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountant
22nd Floor, CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

PRINCIPAL BANKERS

Bank of China
Longyan Branch
Bank of China Tower
No. 1 Longchuan Bei Road Longyan City
Fujian, PRC

China Construction Bank
Shanghai Songjiang Branch
No. 89 Zhongshan Zhong P.O. Road
Songjiang District
Shanghai, PRC

Financial Highlights

The table below sets forth the consolidated financial summary of Lonking Holdings Ltd (the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group").

Current period	**2022 RMB'000**	2021 RMB'000	Change (+/–)
Turnover	**11,150,234**	13,690,520	-18.56%
Operating profits:	**458,611**	1,464,345	-68.68%
EBITDA	**734,131**	1,755,164	-58.17%
Profit attributable to equity parent	**400,454**	1,275,383	-68.60%
Per share data	**RMB**	RMB	
Basic earnings per share[(1)#]	**0.09**	0.30	-70.00%
Net assets per share[(2)#]	**2.28**	2.38	-4.20%
Key performance indicators	**%**	%	
Profitability			
Overall gross margin	**16.74**	17.95	-1.21%
Net profit margin	**3.59**	9.32	-5.73%
EBITDA margin[(3)]	**6.58**	12.82	-6.24%
Return on equity[(4)]	**4.11**	12.50	-8.39%
Liquidity and solvency			
Current ratio[(5)]	**2.38**	2.20	-8.18%
Interest coverage ratio[(6)]	**23**	128	-82.03%
Gearing ratio[(7)]	**57.46%**	62.69%	-5.23%
Management efficiency	**days**	days	
Inventory turnover days[(8)]	**150**	127	+23 days
Trade and bills payables turnover days[(9)]	**159**	149	+10 days
Trade and bills receivable turnover days[(10)]	**93**	86	+7 days

Financial Highlights

#	Calculated based on the 4,280,100,000 shares outstanding as at 31 December 2022 (31 December 2021: 4,280,100,000).
1	Net profit attributable to equity holders of the parent for each period divided by the weighted average number of outstanding shares (WANOS) as at the end of each period.
2	Shareholders' equity divided by the WANOS as at the end of each period.
3	Earnings before interest, tax, depreciation and amortisation ("EBITDA") divided by turnover for each period.
4	Net profit attributable to equity holders of the parent for each period divided by equity attributable to equity shareholders of the parent as at the end of each period.
5	Current assets divided by current liabilities as at the end of each period.
6	Earnings before interest and income tax expenses ("EBIT") divided by interest expenses.
7	Total liabilities divided by the total equity as at the end of each period.
8	Average inventories divided by cost of sales and multiplied by 365 days.
9	Average trade and bills payables divided by cost of sales and multiplied by 365 days.
10	Average trade and bills receivables divided by turnover and multiplied by 365 days.

Chairman's Statement

Dear shareholders and investors,

On behalf of the Board, I would like to present the Chairman's Statement of Lonking Holdings Limited ("China Lonking" or "Lonking") for the year ended 31 December 2022.

In 2022, affected by complex factors such as slow macroeconomic growth, changes in industry cycles and the COVID-19 pandemic, the construction machinery industry has encountered challenges with more intensified competition.

The overall development of Lonking was stable and has achieved a good result in 2022. The Company's key financial indicators and development quality remain better among its peers.

I. KEY RESULTS AND FINANCIAL PERFORMANCE

1. Operating performance remained sound. Operating revenue amounted to HK$12.731 billion, and the market position of major products has been further consolidated and strengthened. Confronted with increased intensified competition in the industry and a variety of aggressive models, Lonking has maintained strategic focus to actively cope with the competition.

2. Better profits were maintained by overcoming difficulties. The Company achieved a net profit of HK$457 million in 2022, as a result of safeguarding its overall profitability through overcoming the adverse impacts of the COVID-19 pandemic and the industry downturn. This was the result of a combination of sound operational management and a healthy financial position of the Company.

3. Excellent asset and liability structure. Gearing ratio of the Company at the end of the period led the industry, standing at 36.64%, which was healthy and reasonable.

4. Sufficient cash and cash flows. Net cash flows from operating activities amounted to HK$2.12 billion; total cash and financial assets as at the end of the period was HK$6.645 billion.

5. Attractive dividend payout. A dividend of HK$0.10 per share was proposed as at the end of the period, representing a payout ratio of 94% of net profit.

II. HIGHLIGHTS OF THE COMPANY'S OPERATION IN 2022

1. Continuously improve position in the market. In 2022, the main lines of products of Lonking continued to maintain a good competitiveness. Loaders continued to rank top in the industry in both domestic production and sales volume; while we further recognized our status in the top 3 of the market for forklifts; the export business of main lines of products has increased significantly by occupying a much larger share in international market. In 2022, products of Lonking received high recognition and reputation from a wide range of users.

2. Highly valued product research and development. In 2022, the Company introduced technical experts and technicians, invested more in research and development for initiating, promoting, researching, producing and testing the new series of products. The Company further enhanced the technical research of the core key components, promoting a better development for projects such as axles, gear boxes, cylinders, gears, castings, and high-end hydraulic pumps and valves. In particular, substantial progress has been made in new energy loaders and forklifts.

3. Comprehensively elevated the quality of products. In 2022, the Company further intensified efforts in promotion of activities for the year of comprehensive quality management, strengthened the establishment of quality team, intensified the quality function reformation by initiating to set up gatekeepers to control throughout the whole process to eliminate all the issues on product quality. This also enhanced the work on the user system, instruction guidelines, and 4M Management, strengthening our management and control of the quality of products from suppliers.

4. Strictly controlled operational risks. The Company continuously innovated and improved its management system and strengthened its risk control to be truly "Back to Basics for Being Resilient". With the fierce competition in the market, Lonking continued to stand firm and did not participate in the "risk-for-market" competition to ensure the high quality of the Company's operations. In 2022, the Company held sufficient cash and the operating cash flow continued to remain strong; the trade receivables and inventory turnover days maintained at a good level; the Company's asset quality was further improved, and the corporate operational efficiency and quality have been historically the best.

5. Vigorously introduced more talents. The Company seized various opportunities, highlighted the introduction of domestic and overseas talents in all fields, further introduced and cultivated management trainee as well as strengthened management. The Company also further strengthened the investment in research and development, and endeavored to create its core competitiveness by focusing on product and product quality.

Chairman's Statement

6. In 2022, the Company highly valued environmental safety, ensured there is no severe safety accidents and no breaching of laws and regulations on environmental protection. The Company highly values building corporate culture and actively strives to create a Lonking family atmosphere. We continuously decrease labour work of our employees and implemented measures to care for our employees. This elevated the staff stability and satisfaction indices, allowing Lonkingers to truly have the senses of pride, belonging and attainment.

Dear investors, the Board of Lonking has outlined the work agenda for 2023, which sets out the working targets and tasks in 2023. Plus with the impact of domestic and foreign economies, the industry remained in a downward cycle and construction machinery industry is not optimistic in the short term. Nevertheless, we firmly believe that opportunities lie in the midst of the crisis. Therefore, we will grasp the opportunities in the downward cycle of the industry and further increase the market share with a solid development foundation, strong financial strength, healthy online channels and sound risk control system and, in accordance with the guidelines of "Back to Basics for Being Resilient". We firmly believe, led by the Board, all the Lonkingers will be determined to forge ahead, keep exploring without changing their goals, and strive to exceed the 2023 target set by the Board.

Since its listing, China Lonking has strived to maintain transparency and improve standards of corporate governance. We have maintained good communication with our investors. We are willing and hope to keep a closer tie with more investors, and strengthen interaction with them to promote sound development of the Company.

We are honored to have a professional Board, an experienced and diligent management team, and industrious and intelligent employees. I wish to take this opportunity to express my sincere gratitude to all directors and employees for their assiduous efforts. We will make our utmost efforts to attain sustainable growth and enhance our profitability and exert all our efforts to create the greatest value for our customers and bring the best returns to our shareholders.

LONKING HOLDINGS LIMITED
Li San Yim
Chairman of the Board

28 March 2023

Management Discussion and Analysis

RESULT AND BUSINESS REVIEW

The year 2022 is an extraordinary year for China's economy. During the year, China's economic development was hit by a new round of COVID-19 pandemic, geopolitical conflicts, and other unexpected factors, which impacted the market expectation and consumer confidence to a certain extent, and resulted in an annual GDP growth of 3%. The overall demand of the infrastructure machinery industry in which the Group engages showed a downward trend due to slowdown in macroeconomic growth, COVID-19 pandemic, and the downward cycle of the industry. Under the severe and complex business environment, the Group followed the trend to seize market opportunities, and took multiple measures to achieve quality and efficiency improvement, further promote cost reduction and efficiency increase, and seek benefits from quality and management, so as to continuously enhance the competitiveness of various products and services of the Group. During the reporting period, the Group realised a total operating revenue of RMB11,150 million, which decreased by 18.56% or RMB2,541 million year on year from RMB13,691 million in 2021. Loaders, the Group's most competitive products, continue to be the main source of profit. During the reporting period, our loaders' market leadership was further consolidated. The proportion of the sales of loader to total sales of the Group dropped by 1.53 percentage points from 48.29% in 2021 to 46.76%. Forklifts were widely used in the downstream sector. With the growing market demand, the competitiveness of the Group's forklifts has been strengthened. The proportion of forklift sales was 30.25% in the current period, with an increase of 4.57 percentage points as compared with the same period in 2021. Due to the limited demand of excavators in the market, the decline in the growth rate of investment spending in the infrastructure, and the increasing competition among the industrial peers, the demand for excavators in the domestic market and the relating sales of the Group decreased year-on-year. The proportion of the sales of excavator dropped by 3.73 percentage points to 9.95% as compared with that in the same period of 2021. During the reporting period, the Group's consolidated gross profit margin was 16.74%, a decrease of 1.21 percentage points from 17.95% in the same period of 2021. Net profit for the year was approximately RMB400 million, down by RMB875 million or 68.61% year on year from RMB1,275 million last year. The decrease in net profit was mainly due to the downward adjustment period of the domestic construction machinery industry, the negative impact of the domestic and overseas COVID-19 lingering on the production and operations, and the significant year-on-year decrease in net gains generated from financial assets during the reporting period. While the export business of the Group grew rapidly and recorded a year-on-year increase of 70.14%, making the achievement of significant growth for three consecutive years and marking the best performance ever.

GEOGRAPHICAL RESULTS

This year, sales revenue from Mainland China has declined significantly. Among them, the sales revenue from the eastern, southern, southwest and central regions decreased by 37.3%, 36.3%, 33.8% and 32.9% respectively to approximately RMB1,608 million, 998 million, and 727 million and $1,134 million. Sales in north and northeast regions respectively decreased by 23.8%, 20.5% to about RMB2,602 million, RMB 431 million. Sales in the northwest region decreased by 16.7% to approximately RMB1,091 million. The Group's export business grew strongly, and sales revenue from overseas regions increased significantly by 70.2% to approximately RMB2,560 million (2021: approximately RMB1,504 million) compared to last year. This was mainly due to the high demand as a result of the insufficient supply of production capacity in overseas markets, and the continuous improvement of the international competitiveness of the Group's products in recent years.

ANALYSIS OF PRODUCTS

In 2022, affected by the coronavirus epidemic and the slowdown of macroeconomic growth, the infrastructure machinery industry as a whole experienced a downturn, and the sales revenue of the Group's various products declined compared with the same period last year.

Wheel Loaders

Revenue from sales of Wheel Loaders accounted for approximately 46.8% of total revenue, representing a decrease of 21.1% from last year to approximately RMB5,214 million. Among them, the revenue of ZL50 series and mini wheel loaders decreased significantly, falling by 26.1% to approximately RMB3,777 million and 13.1% to approximately RMB245 million, respectively. The revenue of ZL60 series decreased by 8.4% to approximately RMB432 million. The revenue from ZL40 series and ZL30 series increased slightly by 6.9% to approximately RMB24 million and 2.0% to RMB736 million, respectively.

Excavators

Due to the overall downturn in the infrastructure machinery industry and reduced market demand for products, sales revenue from excavator products decreased by 40.8% to approximately RMB1,109 million (2021: approximately RMB1,873 million).

Fork Lifts

Sales revenue from forklift products decreased slightly by 4.1% to approximately RMB3,373 million (2021: approximately RMB3,516 million). Due to the increasing competitiveness of the Group's forklift products and increasing market demand in recent years, the sales revenue of forklift products accounted for approximately 30.2% of the total revenue (2021: approximately 25.7%).

Road Roller

Revenue from road roller products decreased by 19.8% compared to last year to approximately RMB65 million (2021: approximately RMB81 million).

Components

Due to the decrease in sales revenue and the decrease in market demand for products, the revenue from components also decreased by 18.7% to approximately RMB975 million (2021: approximately RMB1,199 million). At the same time, the consumption of materials required for product services also decreased by 34.4% to approximately RMB208 million (2021: approximately RMB317 million).

Skid Steer Loader

Revenue from skid steer loader products accounted for only 0.7% of total revenue last year, and accounted for 1.8% of total revenue this year. Revenue from this product increased by 119.1% compared to last year to approximately RMB206 million (2021: approximately RMB94 million).

FINANCIAL REVIEW

The cash position of the Group was strong during the year. As at 31 December 2022, the Group had bank balance and cash of approximately RMB2,032 million (31 December 2021: approximately RMB2,025 million).

Cash and Bank Balance

Compared with last year, cash and bank balances increased by approximately RMB7 million, which is generated as a result of net cash inflow of around RMB1,857 million from operating activities, the net cash outflow of RMB1,000 million from investing activities, the net cash outflow of RMB854 million from financing activities and effect of foreign exchange rate changes of RMB4 million.

Liquidity and Financial Resources

We are committed to build a sound financial position. Total net assets as at 31 December 2022 was approximately RMB9,751 million, a 4.4% decrease from approximately RMB10,205 million as at 31 December 2021. The current ratio of the Group at 31 December 2022 was 2.38 (2021: 2.20).

The directors believed that the Group will be in a strong and healthy position and has sufficient resources to support its working capital requirement and meet its foreseeable capital expenditure.

Management Discussion and Analysis

Capital Structure

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities.

As at 31 December 2022, the gross gearing ratio (defined as total liabilities over total assets) was approximately 36.64% (31 December 2021: 38.53%).

Capital Expenditure

During the period, the Group acquired property, plant and equipment of approximately RMB306 million (2021: approximately RMB358 million) in line with a series of strategic transformation and production transformation by the Group.

The capital expenditures were financed by the internal resources and general borrowings of the Group.

Revenue

Total revenue for the year decreased by 18.6% to approximately RMB11,150 million (2021: approximately RMB13,691 million) compared with the same period last year. This was mainly due to the overall downturn in China's domestic infrastructure machinery industry, as a result of a decline in the growth rate of investment spending in the infrastructure and real estate industries.

Gross profit

This year's gross profit decreased by about 24% compared to last year, and the corresponding gross profit margin decreased from 17.9% to 16.7%. This was mainly due to the decrease in total revenue this year and the relatively high cost of materials consumed resulting in higher cost of sales.

Other Gains and Losses

Other gain decreased by approximately RMB621 million compared with the same period last year. This was mainly due to 1) the decrease in the fair value of financial assets products invested by the Group during the year; 2) the Group recognized investment gains arising from the disposal of a subsidiary last year.

Management Discussion and Analysis

Selling and distribution expenses

Selling and distribution expenses for the year decreased by 27.4% compared to the same period last year to approximately RMB509 million. This was mainly due to 1) the Group's change of the finished products service policy during the year, resulting in a decrease in the finished product service fee per unit compared with last year; 2) the Group's decrease in sales revenue leads to a decrease in the corresponding transportation fee, finished products service fee; 3) the reduction in product failure rate leads to a decrease in the warranty parts fee.

Finance costs

Finance costs increased by 72.2% from last year to approximately RMB19.7 million, which was mainly due to the increase in interest expenses resulting from the increase in interest borrowing rates in US dollars during the year.

Long-term receivables

Long-term receivables for the year decreased by 66.3% to RMB161 million compared to last year. This was mainly due to the decrease in total sales revenue and decrease in installment sales during the year.

Trade and bills receivables

Trade and bills receivables for the year decreased by 24.6% to RMB2,453 million compared to last year. This was mainly due to the decrease in total sales revenue and decrease in installment sales during the year.

Management Discussion and Analysis

PROSPECT

In 2023, the Chinese government has set a target of approximately 5% GDP growth. The potential and fundamentals of the Chinese economy for long-term growth remain unchanged, which demonstrates strong resilience and potential in a complex and changeable environment and is appropriate and feasible to maintain economic performance within an appropriate range. The year of 2023 marks the first year of China's 14th Five-Year Plan and a crucial year for connecting the past and the future. With the continuous optimization of epidemic prevention policies and the accelerated implementation of a package of measures to stabilize the economy and boost consumption, market expectations and confidence will recover gradually, with continuous improvement of China's economic performance, steady enhancement for the quality of development, and the maintenance of overall social stability. In this year, the Chinese government advocates to "make efforts to expand domestic demand", "strengthen the construction of environmental infrastructure in urban and rural areas" and "improve the construction of the housing security system and supporting the demand for rigid and improved housing", all of which provide guarantee for demand of the infrastructure machinery industry to maintain a relatively sound development trend. The Group, adhering to its originality of "focusing on the infrastructure machinery industry by intensive engagement with an aim to pursuing perfection, being bigger and getting stronger", consolidates the foundation through improving internal management, forges ahead with hardworking and leverages the leading role of R&D and technological innovation, with a commitment to striving for high quality, sustainable and healthy development on the four host products (loaders, excavators, forklifts and road machinery) and core components that extended the product manufacturing chain. The Group will adhere to the marketing principle of agency system, continue to deepen and enhance its three strengths of "quality, service and cost effectiveness", and continue to optimize and innovate its marketing model on the premise of ensuring risk control. The Group will also grasp the opportunity of the continuous enhancement of the international recognition of Chinese brands, make a thorough investigation and exploration of export sub-markets, implement precise measures, increase investment in the research and development of internationalized products and technologies, and continuously launch new products and high-quality products to develop export sub-markets, so as to achieve a continuous and steady increase in the sales volume and market share of export business. Moreover, the Group will adhere to the strategic idea of long-term development, continue to increase investment in the research and development of new products and technologies, make targeted breakthroughs, and continue to enhance the competitiveness of its products and services, so as to win the hard-fought battle of market exploration. The Group will also continue to push forward the procurement and bidding system and process reform, continuously innovate the management system, continuously promote management improvement, and create a controllable and efficient control mechanism to enhance operational efficiency and effectiveness, so as to create more value for the society and investors.

Profiles of Directors and Senior Management

Mr. Li San Yim, aged 72, is an executive director, the Chairman of the Board and one of the founders of the Group.

Mr. Li is the husband of Ms. Ngai Ngan Ying, being a non-executive director. Save as disclosed above, Mr. Li has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Mr. Li's interest in the shares within the meaning of Part XV of the Securities and futures Ordinances (Cap 571) (the "SFO") is set out on page 22 of this annual report.

Mr. Chen Chao, aged 48, is an executive Director and the executive vice-president of the Group. Mr. Chen joined the Group in July 1997, currently in charge of technology and quality management. Mr. Chen holds an EMBA degree from Fudan University in Shanghai. Mr. Chen has over 23 years of experience in product development and quality control, and has previously served as a director of technical center at Lonking Group, deputy general manager and general manager of Shanghai Lonking Machinery, and the dean of Research Institute of Lonking Holdings Limited (中國龍工控股有限公司技術研究院). Mr. Chen is a member of the National Technical Committee on Earth-moving Machinery (全國土方機械標準化技術委員會) and the National Technical Committee of Auto Standardization (全國工業車輛標準化技術委員會), respectively. In addition, Mr. Chen has been successively appointed as a 5th, 6th and 7th Committee Member by the branch of China Mechanical Design Institute (中國機械工程學會機械設計分會). He has also been appointed as a qualified technology and quality expert (技術質量專家) by the Technology and Quality Standing Committee (技術質量委員會) of Mechanical Engineering Technology and Quality Message Site (全國工程機械行業技術質量信息網).

Save as disclosed above, Mr. Chen has not held directorships in any other listed public companies in the last three years. Mr. Chen is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Chen's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 21 of this annual report.

Profiles of Directors and Senior Management

Mr. Zheng Ke Wen, aged 48, join the Group in September 1996. He was named as the "Outstanding Entrepreneur of Fujian Province" (福建省優秀企業家) in 2007-2008 and "Technical Innovation Expert" (技術創新能手) of Shanghai, and awarded a "second class" Fujian Province Science and Technology Award (福建省科學技術進步二等獎) and "Collective Representative of Model Worker of Shanghai" (上海市勞模集體代表). He was the committee member of third Youth Federation of Song Jiang District of Shanghai (上海市松江區第三屆青年聯合會委員). Mr. Zheng obtained an EMBA degree from Xiamen University. Mr. Zheng has over 19 years of experience in corporate management and sales and marketing. He has been the director of the chief control room, vice general manager and general manager of Longgong Shanghai Machinery Co. Ltd., general manager of Longgong (Shanghai) Axle & Transmission Co., Ltd., general manager of Longgong (Shanghai) Excavator Manufacturing Co. Ltd., and general manager of excavator business segment of Lonking. He is currently the vice President of the Company.

Save as disclosed above, Mr. Zheng has not held directorships in any other listed public companies in the last three years. Mr. Zheng is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Zheng's interest in the shares of the Company within the meaning of Part XV of the SFO is set out on page 21 of this annual report.

Mr. Yin Kun Lun, aged 55 is an executive Director and the chief financial officer of the Group. Mr. Yin obtained a Bachelor's degree from Jilin University Management School in 1990 and graduated from Washington University-Fudan University EMBA Program and obtained a MBA degree from Washington University in 2010, and is a qualified Certified Public Accountant in the PRC. He was the auditing director of a factory under China Petroleum Jilin Chemical Group, the chief financial officer of BASF JCIC NPG Company Ltd and Putzmeister Machinery (Shanghai) Company Ltd. as well as the chief financial officer of Mahle Technology (China) Holding Ltd. Mr. Yin has over 27 years of experiences in corporate finance and investment management.

Save as disclosed above, Mr. Yin has not held directorships in any other listed public companies in the last three years. Mr. Yin is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Yin does not have any interest in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Ms. Ngai Ngan Ying, aged 67, is a non-executive director of the Group, the Vice-Chairman of the Group and one of the founders of the Group.

Ms. Ngai is the wife of Mr. Li San Yim, being a director. Save as disclosed above, Ms. Ngai has not held directorships in any other listed public companies in the last three years and does not have any other relationships with any directors, senior management, substantial or controlling shareholder of the Company. Ms. Ngai's interest in the shares within the meaning of Part XV of the SFO is set out on pages 21 to 22 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Qian Shizheng, aged 71, was appointed as an independent non-executive director in February 2005. Dr. Qian Shizheng served as an independent non-executive director since February 2005. He graduated from Fudan University with a doctorate degree in management and has taught at Fudan University as associate director and professor in the faculty of Accountancy. He was an executive director of Shanghai Industrial Holdings Limited (stock code: 363HK) and vice president of Haitong Securities Co., Ltd. (stock code: 6837HK). He currently serves as independent director of Jingrui Holdings Limited (stock code: 1862HK) and Hanhua Financial Holding Co., Ltd (stock code: 3903HK). He has over 40 years of experience in the finance and accounting fields.

Save as disclosed above, Dr. Qian has not held directorships in any other listed public companies in the last three years. Dr. Qian is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. He does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Profiles of Directors and Senior Management

Mr. Wu Jian Ming, aged 69, was appointed as an independent non-executive director of the Company in August 2013. He graduated from Central Party School of the Communist Party of China and is an economist. Mr. Wu has been a delegate of the 12th session of the People's Congress of Shanghai Municipality and was awarded the title of Model Worker of Shanghai. Over the past 30 years, Mr. Wu has held various positions in different divisions in Songjiang government in Shanghai, including the mayor of Cangqiao Town (倉橋鄉) in Songjiang County, the secretary of Chinese Communist Party Committee of Maogang Town (泖港鎮), the secretary of Chinese Communist Party Committee of Xinqiao Town (新橋鎮), the director of Construction and Transportation Management Committee in Songjiang District, the director of Administrative Committee of Songjiang Industry Park, a secretary and director of Administrative Committee of Export Processing Zone, and a chairman and general manager of Songjiang Economic and Technological Development Corporation (松江經濟技術發展總公司).

Saved as disclosed above, Mr. Wu has not held directorships in any other listed public companies in the last three years. Mr. Wu is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Wu does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Yu Taiwei, aged 61, was appointed as an independent non-executive director of the Company in 26 May 2021. He obtained a Masters Degree in Public Administration from National University of Singapore in 2003. From 1998 to 2001, he successively served as Deputy Director and Director of the Department of Animal and Plant Quarantine of the State Administration for Entry-Exit Inspection and Quarantine of the PRC (國家出入境檢驗檢疫局). From 2001 to 2011, he successively served as Deputy Director and Director of the Department of Animal and Plant Quarantine of the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局), and Director of the Bureau of Import and Export Food Safety. From 2011 to 2014, he also served as the Head of Songjiang District, Shanghai. From 2014 to 2017, he served as Director General of the Bureau of Import and Export Inspection and Quarantine of the PRC (上海出入境檢驗檢疫局). In 2017, he served as the President of the Asia Pacific Exchange of Singapore. From 2018 to 2019, he served as the Chairman and CEO of Ping An International Smart City Technology Co, Ltd. (平安國際智慧城市科技股份有限公司). Since 2020, he was engaged as a senior advisor of Ping An International Smart City Technology Co, Ltd.

Save as disclosed above, Mr. Yu has not held directorships in any other listed public companies in the last three years. Mr. Yu is not connected with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Yu does not have any interests in the shares of the Company within the meaning of the Part XV of the SFO.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements.

BUSINESS REVIEW

The board of directors (the "Board") has reviewed results of the Group for the year ended 31 December 2022 and discussed the financial key performance indicators and outlook of the Group. Details of the review and analysis are set out in the Management Discussion and Analysis on page 8 of the annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of Profit or loss on page 67 of the annual report.

A final dividend of HKD0.22 (Equivalent to RMB0.18) per share as a result of the operation of 2021 amounting to HKD942 million (Equivalent to RMB765 million) was paid to the shareholders during the year. There were no any interim dividend paid out during the year.

The Board has proposed a final dividend of HKD0.10 per ordinary share for the year ended 31 December 2022.

PROPERTY, PLANT AND EQUIPMENT

The Group expended RMB306 million on property, plant and equipment during the year.

Details of the movement during the year in property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interest of the Group for the last five financial years is set out on page 166 of the annual report. This summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in the reserves of the Group during the year are set out on page 71 of the annual report.

The Company's reserves available for distribution to shareholders comprise the share premium, contributed surplus and accumulated profits which in aggregate amounted to approximately RMB7,022 million as at 31 December 2022 (2021: RMB7,527 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Article of Association, dividends shall be distributed out of the accumulated profits or other reserves, including the share premium account, of the Company.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Li San Yim *(Chairman and Chief Executive Officer)*	(appointed on 11 May 2004)
Chen Chao	(appointed on 17 February 2005)
Zheng Ke Wen	(appointed on 25 May 2012)
Yin Kunlun	(appointed on 25 May 2012)

Non-executive directors:

Ngai Ngan Ying	(appointed on 11 May 2004)

Independent non-executive directors:

Qian Shizheng	(appointed on 17 February 2005)
Wu Jian Ming	(appointed on 27 August 2013)
Yu Taiwei	(appointed on 26 May 2021)

Pursuant to the Articles of Association, at each annual general meeting one-third of the directors for the time being (or if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years. Each of Mr. Li San Yim, Mr. Chen Chao, Mr. Zheng Ke Wen, Mr. Yin Kun Lun, Ms. Ngai Ngan Ying, Dr. Qian Shizheng, Mr. Wu Jian Ming and Mr. Yu Taiwei shall retire at the annual general meeting and all offer themselves for re-election at the annual general meeting.

The biographical details of the directors are set out on pages 14 to 17 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract 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 Company were entered into or existed during the year ended 31 December 2022.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2022, the interests of the directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

(1) Long positions in shares and underlying shares of the Company

Ordinary shares of HKD0.10 each of the Company

Name of directors	Capacity	Number of shares held	Percentage of the issued share capital of the Company
Ngai Ngan Ying	Beneficial owner	2,398,273,188	56.03%
Chen Chao	Beneficial owner	1,596,000	0.04%
Zheng Ke Wen	Beneficial owner	429,900	0.01%
		2,400,299,088	56.08%

(2) Long positions in shares of the associated corporation of the Company, Longgong (Shanghai) Machinery Company Limited

Ordinary shares of HKD0.10 each of the Company

Name of directors	Capacity	Register share capital	Percentage of the issued share capital of the Company
Li San Yim	Corporate *(Note)*	480,000	0.11%
Ngai Ngan Ying	Corporate *(Note)*	480,000	0.11%

Note: The 0.11% interest of Longgong (Shanghai) Machinery Company Limited is held by Shanghai Longgong Machinery Limited, which is owned by Mr. Li and Mrs. Li as to 39.5% and 60.5% respectively.

Save as disclosed above as at 31 December 2022, none of the directors, chief executives of the Company or any of their associates, had registered any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded and kept in the register by the Company in accordance with the Section 352 of the SFO, or any interests required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year, no Directors or their respective associates (as defined in the Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HKD0.10 each of the Company

Name of shareholder	Capacity	Number of ordinary shares interested	Percentage of the issued share capital of the Company
Citigroup Inc.	Investment Manager	204,997,560	4.78%

Saved as disclosed above, as at 31 December 2022, the Company has not been notified of any other interests or short positions in the issued share capital of the Company as recorded and kept under Section 336 of the SFO as having an interest of 5% or more in the issued share capital of the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares and any other listed securities during the period.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Human Resources Division on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The five highest paid employees of the Group were all directors of the Company and details of their remuneration are included in note 8 to the consolidated financial statements.

At 31 December 2022, the Group employed approximately 7,762 employees.

ENVIRONMENTAL POLICY

We are committed to protect and improve the environment, prevent and reduce pollution. We operate in strict compliance with applicable national and local environmental regulations and strive to minimize the noise, waste water, gases and other industrial waste generated during our production processes. We require our production facilities to obtain necessary permission and approvals from the relevant government environmental regulator.

We are also continuously improving our existing products and developing new products in terms of environmental performance such as energy-efficient and noise-reduced features.

Details of the environmental performances of the Group are set out on page 42 to 61 of environmental, social and governance report in this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers accounted for approximately 14% (2021: 13%) of the Group's total turnover for the year and the largest customer accounted for approximately 4% (2021: 3%) of the Group's total turnover for the year. The five largest suppliers accounted for approximately 32% (2021: 29%) of the Group's total purchases for the year and the largest supplier accounted for approximately 13% (2021: 14%) of the total purchases.

Save as disclosed above, none of the directors of the Company, an associate of the directors or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) have interest in any of the Group's five largest suppliers or customers.

RELATIONSHIPS WITH STAKEHOLDERS

The Company's key stakeholders are shareholders, suppliers, customers, employees and financial institutions. We are committed to maintain a good relationship with our business partners including suppliers, customers and financial institutions through good communication, exchanging ideas and sharing business update when appropriate. We are also committed to provide competitive remuneration package to attract and motive our employees.

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in Note 1 to the consolidated financial statements.

CONNECTED TRANSACTIONS

On 12 June 2019, the Company entered into a Master Purchase Agreement (the "Jinlong Master Purchase Agreement") with LongYan City Jinlong Machinery Company Limited ("Jinlong"), a company incorporated in the PRC with limited liability and owned as to approximately 82.67% by Mr. Ngai Ngan Qin, a brother of Ms. Ngai Ngan Ying, the non-executive director of the Company, pursuant to which the Group agreed to purchase the Parts from Jinlong from time to time for a term commencing from 1 January 2020 and ending on 31 December 2022. In addition, the Company and Jinlong entered into a Renewed Purchase Master Agreement ("Renewed Jinlong Master Purchase Agreement") on 30 December 2022, pursuant to which, the Group agreed to purchase parts from Jinlong from time to time during the period from 1 January 2025 to 31 December 2025.

On 29 December 2020, the Company and Herkules (Shanghai) Automation Equipment Co. Ltd. ("Herkules"), a company established under the laws of the PRC with limited liability and wholly-owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive Director, chairman and controlling shareholder of the Company, entered into a Renewed Master Purchase Agreement (the "Herkules Master Purchase Agreement"), pursuant to which, the Company agreed to purchase or would procure its subsidiaries to purchase the Automation Robot Products from Herkules from time to time for a term commencing from 1 January 2021 and ending on 31 December 2023.

Directors' Report

The transaction contemplated under each of the Jinlong Master Purchase Agreement, and the Herkules Master Purchase Agreement, constitutes connected transactions for the Company under Rule 14A.76(2) of the Listing Rules and are exempt from the independent shareholders' approval requirement under the Listing Rules by virtue of the fact that each of the relevant percentage ratios (other than the profit ratio) in respect of the related amount is less than 5% on an annual basis. For the year ended 2022, the Company purchased the parts approximately RMB54 million from Jinlong under the Jinlong Master Purchase Agreement, the Automation Robot Products approximately RMB24 million under the Herkules Master Purchase Agreement.

Details of the related party transactions of the Company during the year are set out in Note 37 to the consolidated financial statements. All the related party transactions disclosed in the annual financial statements in accordance with HKAS 24 "Related Party Disclosure" fall under the definition of connected transactions or continuing connected transactions in Chapter 14A of the Main Board Rules. In the opinion of the directors, the Company had during the year ended 31 December 2022 complied with all the disclosure requirements in accordance with Chapter 14A of the Main Board Rules. The independent non-executive directors confirm that the Transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole. Company has engaged its external auditor to review the Group's continuing connected transactions with Jinlong and Herkules in accordance with Hong Kong Standard on Assurance Engagements 3000(Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on continuing connected transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The board of directors confirm that the auditor has issued an unqualified letter containing its conclusions in respect of the non-exempted continuing connected transactions mentioned above pursuant to Rule 14A.56 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no major acquisition and disposal of subsidiaries and associated companies during the year ended 31 December 2022.

POST BALANCE SHEET EVENTS

The Company did not have any significant post balance sheet events.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of bye-laws, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Directors' Report

COMPLIANCE WITH LAWS AND REGULATIONS

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.

DIVIDEND POLICY

The board of directors has adopted a dividend policy, under which, any distribution of dividends shall be in accordance with the applicable laws, regulations and the relevant provisions of Articles of Association. As long as the Group is profitable and any dividends paid to company shareholders will not have a significant impact on the Group's business and operations. The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

(i) the financial performance and condition of the Group,

(ii) reasonable expected investment return from the shareholders,

(iii) business conditions and strategies,

(iv) future development of the business including the capital requirements and expenditure plans,

(v) any restrictions on the payment of dividends and any other factors that the Board may consider relevant.

The board continues to review the dividend policy from time to time.

PRINCIPAL RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospect may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. Major risks are summarized below.

(i) Market Risk

After years of high speed development, construction machinery industry has stepped into a relatively stable period. As result, market demand for our products including wheel loaders, road rollers, excavators, forklifts and other infrastructure machinery may continues decline. Our financial condition, results of operations and prospects will be adversely affected if we cannot guarantee that the demand for our products will continue or increase in the future.

In addition, the construction machinery industry in which the Group operates is highly competitive. We face competition in the market from international and domestic construction machinery manufacturers, many of which entered the market before us and currently have larger market shares than us. The demand in the market for your products may decline if we do not respond timely to our competitors.

Directors' Report

(ii) Financial Risk

We are subject to financial risks which may adversely affect our business, financial condition and results of operations. Details of which are set out in Note 41 to the consolidated financial statements.

(iii) Operational Risk

We reply on a limited number of suppliers for certain raw materials and key parts and components. There can be no assurance that these suppliers will continue to supply raw materials and components to us on existing or similar terms, or at all. If the supply of any of our core raw materials, parts and components is interrupted or the terms of supply change, our financial condition and results of operation may be adversely affected.

We also depend on sales agents to sell our products because we sell substantially all of our products through sales agents, which comprise our direct customer base. If we fail to maintain relationship with our existing sales agents, attract additional sales or effectively manage our sales agents, our business will be adversely affected. Further, we intend to expand our sales and service network in China and overseas to expand our geographical coverage and increase our domestic and international market penetration. If we cannot be able to successfully expand our sales, service and distribution network, our business will be adversely affected.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2022.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Ernst & Young as the auditor of the Company.

On behalf of the Board

Mr. Li San Yim
CHAIRMAN

Shanghai, 28 March 2023

Corporate Governance Report

CORPORATE GOVERNANCE PRINCIPLES

To become a company which enjoys the continuously growing trust of its shareholders and all other stakeholders by maximizing its corporate value, the Company is working to improve its management efficiency, advocate corporate ethics and ensure sound management on a Group-wide basis. To further improve the transparency of the management to shareholders and investors, the Company will disclose information in a fair and timely manner and actively engage in investor relations activities by holding meetings in the PRC and Hong Kong to explain its business results and operations. The Company will endeavor to comply with the laws and regulations of the place of operation of the Company and the requirements and guidelines of the Stock Exchange of Hong Kong Limited and local regulatory bodies.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for the corporate governance duties as follows:

(a) To develop and review the Company's policies and practices on corporate governance and make recommendations to the board;

(b) To review and monitor the training and continuous professional development of directors and senior management;

(c) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) To review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CG CODE")

The Board is committed to maintaining and ensuring high standards of corporate governance practices.

The Board emphasizes on maintaining a quality Board with balance of skill set of directors, better transparency and effective accountability system in order to enhance shareholders' value. In the opinion of the directors, the Company has adopted and complied with the principles and applicable code provisions of Corporate Governance Code ("CG Code") as set out in Appendix 14 of the Listing Rules, except for certain deviations which are summarized as below.

Corporate Governance Report

Code Provision C.1.8

As stipulated in the Code provision C.1.8 of CG Code, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. The Company has not yet made this insurance arrangement as the board of directors considers that the director liability insurance has not yet been identified on the market with reasonable insurance premium while providing adequate suitable security to directors.

Code Provision C.1.6

As stipulated in the Code Provision C.1.6 of CG Code, independent non-executive directors and other non-executive directors shall generally attend general meetings. Three independent non-executive directors and one non-executive director were unable to attend annual general meeting of the Company held on 26 May 2022 (the "2022 AGM") due to other important engagement.

Code Provision B.2.3 and B.2.4

Dr. Qian Shi Zheng ("Dr. Qian") has been appointed as an independent non-executive Director for more than nine years since February 2005. Pursuant to Code B.2.3 of the CG Code, if an independent non-executive director has served more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders. Dr. Qian has extensive experience in the finance and accounting fields. He provides a wide range of expertise and experience which can meet the requirement of Group's business and his participant in the Board brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interest of the shareholders have been duly considered. The Company has received from Dr. Qian a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Dr. Qian has not engaged in any executive management of the Group. Taking into consideration of his independent scope of works in the past years, the Directors consider Dr. Qian to be independent under the Listing Rules despite the fact that he has served the Company for more than nine years. Accordingly, Dr. Qian shall be subject to retirement rotation and re-election by way of a separate resolution approved by the shareholders at the Annual General Meeting. At the Annual General Meeting of the Company held on 26 May 2022, a separate resolution to re-elect Dr. Qian, a retiring Director, as an independent non-executive Director was passed by the shareholders by way of poll.

Corporate Governance Report

Code Provision C.2.1

As stipulated in the Code provision C.2.1 of CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Li San Yim ("Mr. Li"), an executive director of the Company and the chairman of the Board has been appointed by the Board to act as the chief executive officer concurrently since 21 December 2015. As Mr. Li serves as both the chairman of the Board and the chief executive officer of the Group, such practice deviates from code provision C.2.1 of the CG Code. The Board is of the view that it is appropriate and in the best interests of the Company for Mr. Li to hold both positions as it helps to maintain the continuity of the policies and the stability of the operations of the Company. Therefore, the Board considers that the deviation from the code provision C.2.1 of the CG Code is appropriate in such circumstance. Notwithstanding the above, the Board is of the view that this management structure is effective for the Group's operations and sufficient checks and balances are in place.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions. Specific enquiry has been made to all directors, who have confirmed that they had complied with the required standard set out in the Model Code for the year ended 31 December 2022. The Board will continue to review and foster its own Code of Corporate Governance Practices from time to time. The Company will seek to improve its management and raise its control level to enhance the Company's competitiveness and operating efficiency, to ensure its sustainable development and to generate greater returns for the shareholders.

CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for the management of the Company with acting in the interest of the Company and its shareholders as its principle and is accountable to the shareholders for the assets and resources entrusted to them by the shareholders. The key responsibilities of the Board include the formulation of the Company's long-term development strategies and operating direction, setting of the management targets and supervising members of the management in implementing matters resolved by the Board and performing their duties. Under the Board, there are currently 4 board committees, namely Executive Committee, Audit Committee, Remuneration Committee and Nomination Committee. All these committees perform their distinct roles in accordance with their respective terms of reference.

Corporate Governance Report

BOARD OF DIRECTORS

The Board currently comprises 8 directors, including 4 executive directors, 1 non-executive directors and 3 independent non-executive directors. Each director has a duty to act in good faith in the best interests of the Company. The directors are aware of their collective and individual responsibilities to the shareholders.

Pursuant to Rules 3.10 (1) and (2) of the Listing Rules, Dr. Qian Shizheng, one of the independent non-executive directors, has specialized in related financial management expertise.

A written confirmation was received from each of the independent non-executive directors, Dr. Qian Shizheng, Mr. Wu Jian Ming and Mr. Yu Tai Wei confirming their independence pursuant to Rule 3.13 of the Listing Rules.

All members of the Board are of relevant professional background with plenty of experience who can have a positive and motivational effect in raising the development and management level of the Company. Mr. Li San Yim ("Mr. Li") serves as both the Chairman of the Board and the chief executive officer. The chairman of the Board is mainly responsible for the leadership and effective running of the Board, and making key strategic decisions for the Company. The chief executive officer is mainly responsible for the daily operation and management of the Group's business, and implementation of the approved strategies in achieving the overall Company's objectives. Mr. Li holds both positions for the best interests of the Company to maintain the continuity of the policies and the stability of the operations of the Company.

Included in the composition of the Board are two family members: the chairman of the Board, Mr. Li San Yim and his wife Ms. Ngai Ngan Ying, one of the non-executive directors of the Company are subject to retirement by rotation and offer themselves for re-election in the same manner as the executive directors. The Company will review the composition of the Board regularly to ensure the Board possesses the appropriate and necessary expertise, skills and experience to meet the needs of the Group's business.

For detailed information on the members of the directors and senior management, please refer to the section headed "Profiles of Directors and Senior Management" from pages 14 to 17 of this annual report.

For the year ended 31 December 2022, the Board held 4 meetings. Notice of at least 14 days is given for a regular Board meeting to give all directors an opportunity to attend. The following table shows the attendance records of individual directors at the meetings of the Board and the attendance records of individual members at the meetings of the respective Board Committees held for the year ended 31 December 2022:

Corporate Governance Report

Name of directors	Board	Executive Committee	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
	Number of meetings attended/Number of Meetings held for the year ended 31 December 2022					
Executive Directors						
Mr. Li San Yim *(Chairman and Chief Executive Officer)*	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Chen Chao	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Zheng Ke Wen	4/4	2/2	N/A	N/A	N/A	1/1
Mr. Yin Kun Lun	4/4	2/2	N/A	N/A	N/A	1/1
Non-Executive Director						
Ms. Ngai Ngan Ying	4/4	N/A	2/2	1/1	1/1	0/1
Independent Non-Executive Directors						
Dr. Qian Shizheng	4/4	N/A	2/2	1/1	N/A	0/1
Mr. Wu Jian Ming	4/4	N/A	N/A	N/A	N/A	0/1
Mr. Yu Tai Wei	4/4	N/A	2/2	N/A	1/1	0/1

Corporate Governance Report

BOARD COMMITTEES

As part of good corporate governance practice, the Board has delegated certain authorities to a number of committees. These committees include representation from non-executive and independent non-executive directors whose objective views are important in the execution of the controls expected in a listed company.

EXECUTIVE COMMITTEE

The executive committee is responsible for recommending general policy and advising direction for the Company to the Board and as such, it interacts with the audit, remuneration committees and nomination committee in respect of their policy submissions. The executive committee reviews on a regular basis the need to appoint directors with specific business acumen in appropriate sectors that would further enhance the present skill set, or add expertise in a developing business sector and assess the independence of the Company's independent non-executive directors.

The Committee currently consists of 4 executive directors, namely Mr. Li San Yim, Mr. Chen Chao, Mr. Zheng Ke Wen and Mr. Yin Kun Lun. Mr. Li San Yim is elected as the chairman.

Under the executive committee, the Company set up a strategy and governance committee and adopted the company code, being its own code on corporate governance. The principal role of the strategy and governance committee are lay down the Company's strategies, policies and business plan and set up appropriate policies to manage risks in pursuit of the Company's strategy objective.

AUDIT COMMITTEE

The audit committee currently comprises 1 non-executive director, namely Ms. Ngai Ngan Ying, and 2 independent non executive directors, namely Dr. Qian Shizheng and Mr. Yu Tai Wei. Dr. Qian Shizheng was elected as chairman.

The primary duties and responsibilities of the audit committee is to assist the Board in fulfilling its oversight responsibilities of the Company's compliance with legal and regulatory requirements with respect to financial matters and those required by the Listing Rules of the Stock Exchange of Hong Kong Limited and other regulatory bodies.

The functions of audit committee include but not limited to the following:

Serve as an independent party to monitor the integrity of the Company's financial statements, reporting process and internal control mechanism;

Review the Company's risk management and internal control systems and discuss the systems with the management to ensure the management has performed its duty to have effective systems.

Consider major investigation findings on risk management and internal control matters and management's response to these findings.

Review and assess audit efforts of the Company's independent auditors; directly appointing, retaining, compensating, evaluating and terminating the Company's independent auditors;

Review the qualifications, independence and performance of the independent auditor; and

Provide an intermediary of open communication among the Company's independent auditors, financial and senior management and board of directors.

The audit committee has reviewed the Company's interim and final results for the year of 2022.

The terms of reference of the Audit Committee are posted on the Company's Website.

AUDITOR'S REMUNERATION

For the year ended 31 December 2022, Ernst & Young Certified Public Accountants ("Ernst & Young") the external auditors of the Group received approximately RMB2.91 million (2021: approximately RMB2.89 million) for audit and review services.

REMUNERATION COMMITTEE

The remuneration committee currently consists of 1 non-executive director, namely Ms. Ngai Ngan Ying, and 1 independent non-executive directors, namely Dr. Qian Shizheng. The primary duties and responsibilities of the remuneration committee is to assist its board of directors (the "Board") in determining the policy and structure for the remuneration of its executive directors, evaluating the performance of its executive directors, reviewing incentive schemes and directors' service contracts and fixing the remuneration packages for all its directors and senior management. No director plays a part in any discussions about his own remuneration for the year ended 31 December 2022. The terms of reference of the Remuneration Committee are posted on the Company's Website.

NOMINATION COMMITTEE

The nomination committee currently comprises 1 non-executive director, namely Ms. Ngai Ngan Ying, and 1 independent non-executive directors, namely Mr. Yu Tai Wei. The primary duties and responsibilities of the nomination committee is to assist its board of directors (the "Board") in identification of suitable individuals qualified to become Board members, review the structure, size and composition of the Board, review as appropriate to ensure the effectiveness of the board diversity policy and monitor of the implementation of this policy and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The terms of reference of the Nomination Committee are posted on the Company's Website.

BOARD INDEPENDENCE

To ensure the independent views and input are available to the Board, the Board adopts the following practices:

(i) In order to comply with the requirements of the listing rules, the proportion of independent non-executive directors maintains at least one-third of the board of directors, the Board currently composes 3 independent non-executive directors.

(ii) The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

(iii) The Board fully considered the contribution and independent judgment of the independent non-executive directors who have served the company for more than nine years with respect to the company's strategy, management and business development. Despite of their long service years, they maintained sufficient independence during the period and did not engaged in any executive management of the Group, which is in the best interests of the Company and shareholders.

(iv) When appropriate, independent non-executive directors may reasonably seek independent external professional advices to assist them in making independent judgments and performing their duties.

(v) To ensure that the mechanisms for independent views and input remain effective and properly implemented, It is fully considered that the composition of the board of directors is in line with the board's diversity policy, the details of the diversity policy are set out on page 36 of this annual report.

(vi) Any of directors who are interested in any matters under consideration shall recuse himself/herself from consideration and abstain from voting on any resolution relating to that matter.

The Nomination Committee will review the above mechanisms on an annual basis to ensure that the mechanisms for independent views and input remain effective and properly implemented.

During the financial year ended 31 December 2022, the Nomination Committee has reviewed and confirmed that the implementation and effectiveness of the above mechanisms for ensuring independent views and input are available to the Board.

BOARD DIVERSITY POLICY

During the year, the Board has adopted a board diversity policy. The Company seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience, independence, expertise, skills and know-how.

Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity. The nomination committee of the Board (the "Nomination Committee") has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to this policy in selection of board candidates. Selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience, independence, expertise, skills and know-how.

The Nomination Committee will review, as appropriate, to ensure the effectiveness of the Board Diversity Policy and monitor the implementation of this policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the Board comprises 8 Directors, including 1 non-executive directors and 3 independent non-executive directors. Among which, one of them is a woman who is non-executive Director, two of them specialize in accounting or related financial management expertise, three of them had experiences other than infrastructure machinery manufacturing, or from different industry and background. A majority of the Directors have more than nine years' experience serving as an executive officer or a director of a company in the infrastructure machinery manufacturing industry. Additionally, the Board comprises members of different age groups, including (i) 40-49 years old - 2 Directors; (ii) 50-59 years old - 1 Director; (iii) 60-69 years old - 2 Directors; (iv) 70-79 years old - 2 Directors and different places of residences, including (i) Mainland China - 6 Directors; (ii) Hong Kong, China - 2 Directors.

The Company values gender diversity. As at the date of this report, the Board has seven male Directors and one female Director, with about 13% female representation sitting at the Board. The Board targets to maintain "at least one female Director" or "female Directors of 12%", whichever is lower. The Board will take opportunities to increase the proportion of female Directors on the Board over time when selecting and making recommendations on suitable candidates as Directors.

The Directors are of diverse background and possess a wide spectrum of professional qualifications and industry experience. The Board is of significant diversity, whether considered in terms of gender, industry experience, background and skills.

INTERNAL CONTROLS AND RISK MANAGEMENT

It is the Board's responsibility for developing and maintaining an effective risk management and internal control system of the Group and reviewing their effectiveness on an ongoing basis. The Group's risk management and internal control systems are designed to manage various risks of the Group within certain acceptable risk level, rather than the complete elimination of the risk of failure to achieve the business objectives of the Group. Therefore it can provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial fraud or losses.

The Board, through the Audit Committee oversee management in the design, implementation and monitoring of the risk management and internal control systems. The risk management and internal control systems include a defined management structure with limits of authority, and are designed for the Group to identify, evaluate and manage the significant risks to achieve its business objectives. The Company has established policies and procedures to all operating units to ensure the effectiveness of risk management and internal control systems. The senior management also reviews and evaluates the control process, monitor any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures taken to address such variances and identified risks.

The Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control system, including financial, operational, compliance controls and risk management functions for the year ended 31 December 2022. The board is of the opinion that the Group's risk management and internal control system are adequate and effective.

The procedures on disclosure of inside information were in place under the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission, to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is promptly assessed and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

The Company continually reviews and enhances its business and operational activities to identify areas of significant business risks and take necessary measures to control and mitigate these risks.

Corporate Governance Report

Internal Audit

The internal audit department is responsible for performing review of the adequacy and effectiveness of the risk management and internal control systems. It reports major risk management and internal review findings to the Board and Audit Committee. The department is monitored and held responsible to the Board and as well as to the audit committee. The internal audit department carries out inspection, monitoring and evaluation of the Company's financial information disclosures, operations and internal control procedures on a regular or in ad hoc basis, with a view to ensuring transparency in information disclosures, operational efficiencies and effectiveness of the corporate control regime.

Independent evaluations and recommendations is the core element in the department, the internal audit staff are authorized to access any information relating to the Company and to make enquiries to staff concerned. Besides that, internal audit department would assist external auditors during an external audit by providing pertinent financial information in a timely manner.

Strengthening Systems of Internal Controls

The Company fully adopts a comprehensive budget management and a level-based performance appraisal management, so as to monitor the operations of the Company according to the budget and adjust operating objectives and management initiatives in a timely manner. For a more scientific and effective human resources management, the Company carries out in-depth analysis on each position for a clear and reasonable definition of job missions, duties, skills requirements and key performance targets.

Key internal controls of the Company include

- Establishment of policies, rules, procedures and approval limits for key financial and personnel matters, and the rules to the delegation of authorities;
- Internal documentation of key processes and procedures;
- Maintenance of proper accounting records;
- Safeguarding the Company's assets;
- Ensuring reliability of financial information;
- Ensuring compliance with appropriate legislation and regulations; and
- Having qualified and experienced persons take charge of important functions.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to code provision C.1.4 of the Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. During the year ended 31 December 2022, all directors have participated in continuous professional development by way of attending briefings, conference, courses, forum and seminars, teaching, self-reading and participated in business-related research which are relevant to the business or directors duties.

INVESTOR RELATIONS

Information Disclosures and Investor Relations Management

The Company believes that it is crucial to maintain effective communication with investors to enhance their knowledge and understanding of the Company. In this regard, the Company attaches high importance to implement positive policies that facilitate investor relations and communication. The Company seeks to enhance the transparency and consolidate the knowledge and understanding of the investors towards the Company effectively through various means such as open, fair and impartial information disclosure to investors.

In 2022, due to the impact of the coronavirus epidemic, the number of visiting investors decreased compared with the past. The Company mainly communicated with domestic and foreign investors through conference calls and maintained a good relationship with the international capital market. As of 31 December 2022, the Company made a total of 61 telephone communications with domestic and foreign investors.

Shareholder's Rights

The Board recognises the importance of effective communication with the shareholders. The Company communicates with the shareholders through various channels including publication of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of the Stock Exchange and the Company.

The general meetings of the Company provide an opportunity for direct communication between the Board and the shareholders. The Company encourages the participation of the shareholders through annual general meetings and other general meetings where the shareholders meet and exchange views with the Board, and to exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details on proposed resolutions to be sent to the shareholders.

Corporate Governance Report

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Investor Relations Department of the Company. Investor Relations Department of the Company handles both telephone and written enquiries from shareholders from time to time. Shareholders' enquiries and concerns will be forwarded to the Board and/or relevant Board Committees of the Company, where appropriate, to answer the shareholders' questions. The contact details of the Investor Relations Department are set out in the Corporate Information section of this annual report. The Board considers that the shareholders communication policy was effective during the year ended 31 December 2022.

Pursuant to Article 58 of the Articles of Association of the Company, the Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) 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.

Pursuant to Article 85 of the Articles of Association of the Company, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting. The procedures for shareholders to propose a person for election as a Director is posted on the Company's website.

Other Stakeholders' interests

While dedicated to maximizing shareholders' value, the Company is also committed to its customers, in terms of provision of quality products and services, and to the staff, by making available opportunities to them for career development. The Company had a strong commitment to shareholders, investors, staff, customers, suppliers and the community at large and always acting in good faith and with integrity. The Company believed that the sustainable development of a company cannot be achieved in isolation from a healthy environment. The Company pledges to contribute to the community while pursuing profit growth, by managing the business within the bounds of relevant laws and environmental regulations, improving standard of corporate governance and enhancing corporate transparency and actively participating in social charities and contribute to the local social development.

During the year ended 31 December 2022, there has been no significant change in the Company's constitutional documents.

CORPORATE SOCIAL RESPONSIBILITY

The Group also dedicates itself to contributing to the society and serving the community in the midst of its rapid development. Taking into consideration the actual situation in the place where it operates, the subsidiaries of the Group take part in local social services. Our involvement in community service helps to build a good image of the Company and contribute to the local social development.

In the future, we will continue to support and participate in diversified social and community activities. To promote the relationship between the Company and investors and to enhance the transparency of the operation of the enterprise, the Company will communicate information regarding the Company's business development through various channels when appropriate.

Environmental, Social and Governance Report

About This Report

Group Overview

Lonking Holdings Limited (the "Group", "Company", "we" or "us") is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (Hong Kong Stock Exchange stock code: 3339). Adhering to the corporate governance policy of "depending on talents and enhancing management; improving quality and promoting brand; earning credibility and becoming the leading player", we are dedicated to our work and seek improvement while maintain stability, aiming to create value with wisdom and benefit people with efficiency.

Scope of Reporting

This report covers the environmental, social and governance ("ESG") initiatives and performance issues related to construction machinery for the period commencing on 1 January and ending on 31 December 2022 (the "reporting period").

This environmental, social and governance report has been prepared in accordance with the Environmental, Social and Governance Report Guidelines ("ESG Guidelines") contained in Appendix 27 to the Main Board Listing Rules of the Hong Kong Stock Exchange.

Reporting Principles

Materiality:

Important and relevant information to stakeholders on different environmental, social and governance aspects is covered in this report, relative importance of environmental, social and governance topics has been determined through materiality assessment and approved by the Board.

Quantitative:

Quantitative information is provided in this report, and where appropriate, with narrative and comparative data to assist users in meaningful interpretation of figures and enable them to perform fair assessment of the Group's environmental, social and governance performance.

Consistency:

Consistent methodologies (as previous reports) are used to prepare and present environmental, social and governance data provided in this report, unless otherwise specified.

Balance:

This report seeks to objectively and fully reveal the ESG controlling strategy and performance of the Company, so as to enhance the ESG information transparency of the Company. Unbiased information is provided in this report, without the inappropriate use of selections, omissions and presentation formats that would mislead the users.

Environmental, Social and Governance Report

Response to This Report

Lonking Holdings Limited highly values the views of all stakeholders on the measures taken by the Group for, and our performance in relation to, sustainability. Should you have any questions or suggestions on this report, please contact us by fax at (852) 2587 8099. Please browse the Group's website (www.lonking.cn) for further information on the environmental, social and governance development plan of the Group.

Our Social Responsibility and Vision

The Group's vision is to become "a remarkable construction machinery operator all over the world". In the course of our future development, we are committed to our responsibilities and obligations as a responsible corporate citizen. We will not only adhere to the scientific concept of development, achieve sustainable development, and strive to build a resource-saving, environment-friendly and innovation-driven enterprise, but also be a role model in actively assuming overall social responsibility, promoting social justice and equity, protecting the natural and social environment, and supporting public welfare and charitable causes, so as to win the respect and admiration of users, agents, employees of operating companies, suppliers, investors, the entire construction machinery industry and society as a whole.

ESG Governance Structure

The Group's ESG governance structure consists of three major components, namely, the Board, the ESG Working Group, and the executive department.

The Board assumes the overall ESG responsibility of the Group and oversees ESG matters as a whole. It sets out the Group's ESG objectives and directions and delegates the management authorities to the ESG Working Group. In addition, the Board is responsible for assessing and identifying the Group's ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place.

Comprised of the key management of core departments, the ESG Working Group is responsible for implementing and coordinating all ESG-related activities and reports to the Board on relevant matters. It also handles materiality assessment, ESG information and data collection as well as the preparation of sustainability reports. In addition, the Working Group is responsible for assisting the Board in identifying and assessing the Group's ESG risks and evaluating the effectiveness of the Group's ESG internal control mechanisms.

The Executive Department drives the implementation of the sustainability polices and initiatives within the business and achieves the sustainability targets set by the Group in the environmental, social and operational management areas.

According to the specific division of work, each Executive Department will evaluate the achievement of ESG objectives proposed by the Board from time to time and report to the ESG Working Group. Then the ESG Working Group will report to the Board after review, and supervise the implementation of the ESG objectives by each Executive Department according to the Board's instructions.

Communication with and Engagement of Stakeholders

This ESG report involves key stakeholders in assessing the significance of various sustainability issues, identifying our operations that have a significant impact on the environment and society, and appropriate analysis and assessment of the materiality and relevance of each ESG issue by stakeholders.

Stakeholders	Participation method	Concerns
Shareholders and investors	• Regular announcements and circulars • Annual and interim reports • Annual general meeting	• Financial and business performance • Corporate governance • Compliance and legality
Employees	• Employee recruitment • Employee training and meetings • Work performance evaluation • Opinion collection • Employee activities	• Compensation and benefits • Promotion opportunities • Occupational health and safety
Agents and customers	• Signing agency cooperation agreement • End customer information • Company website • Annual and interim reports	• Product quality • Product development and innovation • Customer relationship management • Financial and business performance • The sustainable development strategy of the Group
Suppliers/business partners	• Supplier information • Performance evaluation • Annual renewals and updates • Company website • Annual and interim reports	• Ongoing cooperation • Financial and business performance • Corporate governance • Occupational health and safety
Governmental departments/ regulatory departments	• Routine data information reports • Annual and interim reports • Response to inquiries from governmental departments • Related meetings of governmental departments	• Environmental impact • Occupational safety regulations • Product compliance

Stakeholders	Participation method	Concerns
Media and the public	• Announcements • Annual and interim reports • Company website • Interviews	• Corporate governance • Compliance and legality
Community	• Community activities • Donation activities • Company website	• The sustainable development strategy of the Group • Support for the community

Materiality Assessment

The Company conducted materiality assessment on environmental, social and governance issues. During the assessment, we invited different stakeholders to express their views on the environmental, social and governance performance of the Group by means of questionnaires based on their reliance and influence on our business, including key external stakeholders such as shareholders and investors, agents and customers, suppliers and business partners, and key internal stakeholders such as employees and the management. In the materiality assessment, stakeholders rated their relevance based on ESG issues, while the management rated the importance of ESG issues to the Group's business.

We classified ESG issues into "very important" and "important" categories. "Very important" refers to those issues that are closely related to and have a significant impact or risk on the Group's operations, and we will focus on disclosing these issues and the required information in this report. "Important" refers to those issues that are relevant to and affect the Group's operations, which will be described in general terms in this report to indicate the Group's role therein or the extent to which it is affected, in order to enhance transparency.

The results of the materiality assessment are as follows:

Very Important:

- Exhaust gas emissions
- Greenhouse gas emissions
- Wastewater emissions
- Direct energy
- Water resources
- Employee rights
- Labor standards
- Occupational health and safety
- Development and training
- Supply chain management
- Product liability
- Business information privacy and intellectual property protection
- Anti-corruption

Environmental, Social and Governance Report

Important:

- Use of packaging materials
- Potential impact of environment and natural resources on the Company
- Community investment
- Potential impact of climate change on the Company
- Non-hazardous waste emissions
- Other potential environmental impacts on the Company

I. Environment

Pursuant to the national regulations related to environmental protection, the Company has a management system in place for environmental protection, and set up a leading group responsible for environmental protection and prepared emergency plans for environmental incident. The Company has also established the ISO14001 environment management system and ensured the effective operation of the environment management system, while continuing to promote cleaner production and pollution treatment to minimize the impacts of the Company's production and operation on the environment. Adhering to the environmental approach of "cleaner production to perform social responsibility; sustained improvement to create green enterprise", the Company has included environmental management and control into its "Annual Work Schedule of the Board" to facilitate "cleaner production" and "pollution treatment" and, ultimately, to be a resource conserving and environmentally-friendly enterprise in a socially responsible way.

Emissions

Strictly abiding by the "Environmental Protection Law of the People's Republic of China" (《中華人民共和國環境保護法》) and other related laws and regulations and various emission standards of pollutants, the Company actively promotes the application of advanced techniques and equipment with high resource efficiency and low pollutant emission, so as to reduce the generation of pollutants from the source and maintain effective operation of its pollution treatment facilities, ensuring the pollutants are discharged in compliance with standards.

The greenhouse gas emissions of the Company mainly come from the consumption of direct energy, mainly including the consumption of primary energy such as natural gas and diesel oil, and indirect energy, mainly including the consumption of electricity. As of 31 December 2022, calculated on the basis of ISO14064 and IPCC-2006 standards, total emissions of carbon dioxide, methane and nitrous oxide, all being greenhouse gases of the Company, were 230,153 tonnes, 0.5052 tonnes and 0.0667 tonnes in 2022, respectively.

The waste water discharged by the Company is mainly the one from the metal surface treatment during the production process and a small amount of domestic waste water. The Company has built 10 waste water treatment facilities, which apply techniques including acid-base neutralization, coagulating sedimentation and biochemical degradation to conduct treatment of production waste water. A small amount of domestic waste water undergoes biological treatments through septic tank. After such treatment, the production waste water and domestic waste water of the Company meet the "Wastewater Quality Standards for Discharge to Municipal Sewers" (GB/T 31962-2015). As of 31 December 2022, total waste water discharged by the Company to the urban drainage facility was 620,880 tonnes, with a drainage pass rate of 100% in 2022. The Company has established the "Regulations on Administration of the Usage of Tap Water in Production Areas" (《生產區自來水用水管理規定》) to perform strict quota management and control on water usage, realizing a recycle rate of industrial water of 85%. The exhaust gases regularly emitted by the Company are mainly sulfur dioxide and nitrogen oxide arising from energy combustion (such as steam boilers, heating furnaces, etc.) as well as exhaust gases generated from the metal surface treatment process. The Company used energy-saving gas boilers. The emissions of pollutants (such as sulfur dioxide, nitrogen oxide, etc.) meet the "Emission Standard of Air Pollutants for Boilers" (GB 13271-2014) or "Emission Standard of Air Pollutants for Boilers" (DB31/387-2018). Exhaust gases generated from production process are treated through facilities such as acid fog absorption towers, regenerative combustion and activated carbon absorbers. Such treated pollutants can meet the standard set out in the table 2 of the "Integrated Emission Standard for Air Pollutants" (GB16297-1996) or "Integrated Emission Standard for Air Pollutants" (DB31/993-2015). As of 31 December 2022, the Company emitted 0.0361 tonnes of sulfur dioxide and 16.888 tonnes of nitrogen oxide in total in 2022.

The solid wastes discharged by the Company mainly include hazardous wastes and non-hazardous wastes. Hazardous wastes are mainly waste mineral oil, waste cutting fluid, paint residue, surface treatment bath solution and sludge, waste acid, waste hazardous chemicals packaging barrels. As of 31 December 2022, the Company generated total hazardous wastes of 2,001 tonnes in 2022, all of which were outsourced to qualified hazardous waste treatment units entrusted by the Company for proper disposal and corresponding examination and approval formalities regarding the transfer of hazardous wastes being processed as required. The management of hazardous wastes of the Company complies with the requirements of regulations such as "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes" (《中華人民共和國固體廢物污染環境防治法》), "National Catalogue of Hazardous Wastes" (《國家危險廢物名錄》), "Measures on Duplicated Form for Transfer of Hazardous Wastes" (《危險廢物轉移聯單管理辦法》) and "Standard for Pollution Control on Hazardous Waste Storage" (《危險廢物貯存污染控制標準》). Non-hazardous wastes are mainly recyclable wastes such as waste steel, waste iron, waste paper and waste plank, and unrecyclable industrial wastes. As of 31 December 2022, the Company generated total non-hazardous wastes of 111,495 tonnes in 2022, including recyclable wastes of 110,579 tonnes, all of which were recollected by a casting and forging company of the Group, or other recycling companies for comprehensive reuse. Industrial wastes of 916 tonnes were outsourced to industrial waste treatment units recognised by the local government authorities for disposal.

Use of Resources

Starting from the source, the Company has adopted advanced production processes to abandon equipment with heavy pollution and high energy consumption. In 2022, the main energy consumed by the Group included natural gas of 9,026,000 cubic meters, electricity of 250,337,800 KWH, fuel diesel of 1507.7 tonnes, and propane of 957.8 tonnes.

In 2022, the Company consumed 730,453 tonnes of tap water in total.

Committed to be a resource-saving enterprise, the Company prudently complies with the laws and regulations including the "Law of the People's Republic of China on Energy Conservation" (《中華人民共和國節約能源法》) as well as local regulations on energy conservation. As the Company places great importance on energy conservation and consumption reduction to enhance the utilisation rate of energy, it has adopted a 3-level measurement for energy management and quota management. Each of the cutting gas equipment using natural gas and propane is installed with flow meters for measurement. The most reasonable cutting parameters are determined according to steel plate cutting experiments. All of the flame cutting categories are set up with fixed consumption quota. Energy-intensive equipment is installed with power meters for measurement. For high consumption equipment, electricity suspension is arranged in trough hours. Waste heat from boilers is recycled for utilisation. After implementing the aforesaid measures, the Company has recorded a notable decrease in energy consumption.

The Company consistently adopts the concept of water conservation. By developing a water management system and fixed quota control, installing water meters for measurement and improving recycle rate of industrial water, the Company has recorded a notable decrease in product water consumption.

Packing materials used by the Company mainly include wrapping film, wooden boxes and steel baling strap. Without influencing the product, the Company improves the utilisation rate of recyclable packages and reduces consumption of packing materials to minimise its effect on the environment through strengthening internal management and reasonable use of packages. In 2022, total consumption of timber, plastic film, steel baling strap and other packing materials of the Company was approximately 397 tonnes.

Environment and Natural Resources

In 2022, the Company invested a vast amount of capital to conduct technical renovation on its harmful toxic procedures and several existing pollution treatment facilities. With the adoption of international and domestic advanced production processes and pollution treatment techniques, the production and pollution treatment level has been comprehensively improved. Each type of pollutant emissions has met the national or local standards.

In the production and operation process, the Company intensifies the usage control of non-renewable energy, focuses on saving and eliminates waste. The Company neither uses and wastes plenty of non-renewable energy, nor damages the ecological environment of surrounding areas, and there is no material impact on environment and natural resources.

Climate Change

The Company actively seeks to respond to global climate change and climate change policies. Since 2022 when the Ministry of Ecology and Environment announced the implementation of the Carbon Emission Trading Management Regulations (Trial) and climate related policies, the Company has been focusing on greenhouse gas emissions and air pollutant emissions to ensure that locally enforced environmental emission requirements are met. The Company has adopted an ISO 14001 environmental management system and set emission reduction targets. It is assessed that the Company's production operations will be less affected by climate change in the long term at this stage.

II. Social Commitment

2.1 Employee benefits

Employees are one of the most important resources of the Company and its core for development, growth and value creation. The Company fully respects the legal rights of its employees and always upholds the talent perspective of "recruiting and cultivating talents, selecting the right people for the right jobs" ("聚才用賢、能崗匹配"), with an aim to create a fair, equitable and respectful workplace and ambience for all of its employees.

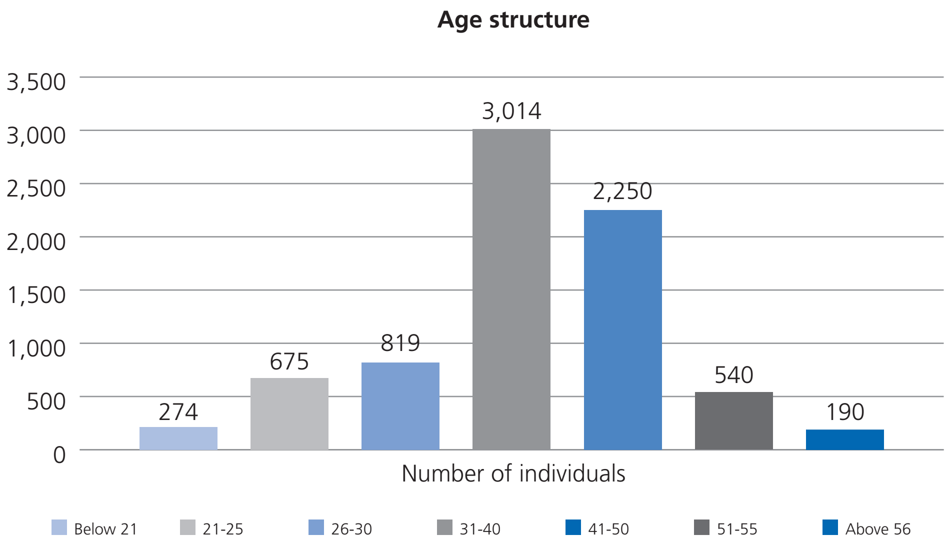
The Company strictly complies with the "Labour Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》), "Labour Laws of Hong Kong" (《香港勞工法例》) and other relevant laws and regulations. Besides, it has established the "Human Resources Management System" (《人力資源管理制度匯編》), which systemically governs aspects such as remuneration packages, employments and promotions, re-designations and overseas deployment, resignation management, working hours, leave management, appointment qualifications, labour protection as well as prevention and protection from occupational hazards. The Company fights against any kind of career discrimination based on factors including genders, ages, disability, races and religions and ensures that employees are offered fair employment or promotion opportunity and remuneration package based on their capabilities and profit contributions.

The Company provides diverse benefits and care to its employees. In addition to the contribution to social insurance and housing provident funds as required under the national provisions, the Company offers a variety of cash and benefit in kind to its employees such as holiday allowance, wedding gift, birth gift and high temperature allowance as well as caring benefits such as health check-ups, paid leave, free accommodation and significant family care. The Company also offers benefits in the form of "healthy life" themed corporate culture events.

Female staffs are entitled to pregnancy examination leave, maternity leave and breastfeeding leave during their pregnancy and parturition, and are arranged to work in their original unit and duties upon expiry of maternity leave in order to actively help employees reintegrate into the workplace. We also provide parental leave to relieve female staff of their worries about returning to the workplace.

Environmental, Social and Governance Report

As of 31 December 2022, the Company had a total of 7,762 employees. Owing to the business nature of the Company as a construction machinery enterprise, most employees are males, accounting for 83.14%; and most employees of the Company are aged 26 to 40. The table below sets forth the breakdown of the age of our employees.



2.2 Health and Safety

The Company has always endeavored to safeguard employees' health and safety. We strictly abided by the occupational health and safety laws and regulations of Hong Kong and Mainland China, and constantly improved the occupational health and safety management system, striving to provide a safe and healthy working environment for our employees, so that they can work with peace of mind and live a happy life.

The Company attaches great importance to environment governance and has continue to invest fund to treat dust and toxic and harmful gases discharged in a comprehensive manner. It ensured compliance with all applicable standards and regulations of various discharges, and the employees' satisfaction indices of the workplace reached 99%. The Company strictly implements related national laws and regulations, and sticks to the guidelines of "Safety First, Prevention First, Comprehensive Governance". The Company has built and complete various systems to protect employees' safety and physical and mental health, including the "Management System of Safe Production" (《安全生產管理制度》), "Contingency Plan for Safety Production" (《安全生產應急預案》), "Administrative Measures for Occupational Medical Examination" (《職業健康檢查管理辦法》), "Regulations on Safety and Occupational Health Training" (《安全、職業健康培訓規定》) and "Provisions on the distribution of worker-protection items (《勞保用品發放規定》)". The safety production standardisation has obtained level 2 national certificate, and the safe production procedures cover all positions throughout the Company. Environmental inspection station in each production base operated normally, which conducted weekly inspections on hazard factors with an annual inspection passing rate at 100%. The Company allocates to employees qualified and complete set of labor protection appliances and implements daily supervision and inspections to standardise their usage. Further, occupational health examination is arranged annually for workers who are exposed to harmful toxic substances at the production line to prevent occupational diseases. The Company has obtained the Environment and Occupational Health and Safety Management Systems (OHSMS) certification and carries out annual internal and external reviews to rectify any non-compliance within specified periods of time. The Company ensures the safety and hygienic condition of the working environment in line with the applicable standards.

2.3 Development and Training

The Company adheres to the tenet of "people-oriented" and the spirit of "diligence, practice, foresight, and innovation". Adhered to the principle of "taking employees as the first", it respects, cares for and relies on employees, and gives full play to their enthusiasm and subjective initiative. In the Company, everyone shall be the manager and the owner, so that they may enjoy the fruitful results of the rapid development of the Company and feel the warmth of "Lonking Family". A harmonious working and living environment will be strived to create for employees to do their best and obtain happiness in work and life.

The Company regularly provides various types of training for employees to enhance their abilities and expertise. In addition, we advocate innovative learning forms, strive to build a practical online learning platform, develop and improve high-quality training materials at different levels, and establish training courses for specific groups. The general staff focuses on the training of professional skills and business knowledge, the middle management focuses on the training of team management and executive ability, and the senior management focuses on the training of leadership. Through training, a high-quality staff team has been formed within the Company.

The Company conducts campus recruitment every year to provide internship and employment opportunities for college students, and provide suitable training and talent training for numerous students. The training shall be conducted by experienced employees to help the students accumulate work experience, thereby providing career development opportunities and showcasing their strengths.

2.4 Labor Standards

The Company has strictly complied with the relevant laws and regulations such as the "Labor Law of the People's Republic of China" (《中華人民共和國勞動法》) and the "Provisions on the Prohibition of Using Child Labor" (《禁止使用童工規定》) to protect the legitimate rights and interests of minors. We prohibit minors from working in any workplaces. In order to eliminate the employment of minors, during the open recruitments, candidates are required to present their identity cards and verify against the originals and only candidates who fulfill the recruitment conditions may proceed with the entry formalities. In 2022, the Company did not violate relevant laws or regulations.

3. Operation and Social Responsibility

3.1 Supply Chain Management

The Company has strict requirements on the management of its suppliers and the supply chain. Adhered to its vertical integration strategy, the Company reasonably plans and establishes an efficient supply chain system that is in line with its development. The Company formulates and implements a series of management systems related to the supply chain, including "Procurement Control Procedures", "Procurement Management System", "New Supplier/ New Product Recommendation and Supplier Evaluation Management", and requires all staff and management to effectively implement them. Through regular assessment on the status and capabilities of its suppliers, the Company continuously integrates and optimizes the supply chain. Based on the analysis on the internal environment and supply environment, the Company deeply cooperates with its suppliers and establishes long-term strategic partnership in a selective and planned way, so as to enhance and stabilize the value of the supply chain, which is also the core competitiveness of the Company.

In the process of cooperation with and management on its suppliers, the Company focuses on strengthening the management of supplier risk identification and assessment, and implements necessary supervision and inspection on the production sites of its suppliers. Moreover, it is required that new suppliers must pass the on-site inspection and assessment and qualification audit by the procurement, technology, quality and supply chain supervision departments before they can apply for admission and confirm the samples delivered. At the same time, regarding the environmental and social risks in the production of suppliers' products, we also follow up on the their implementation through product materials, processes, personnel, equipment, and testing, etc., and develop a rating standard that meets the requirements for assessment and evaluation.

In 2022, the Company had 20 contracted strategic cooperative suppliers and 69 new suppliers, which had greatly reduced constraints of supply chain bottlenecks. In 2022, there were a total of 1,246 qualified suppliers, among which, 967 from Eastern China, 80 from Northern China, 34 from Southern China, 21 from the southwest region, 102 from Central China, 17 from the northeast region, 12 from the northwest region and 13 from overseas.

Environmental, Social and Governance Report

(1) Policy and Management Measures

1. A hierarchic supplier management system has been implemented, and non-compliant suppliers were weeded out in a prompt manner to constantly optimise supply chain structure, persist in the principle of "Selecting the Best" and construct a supply chain system in line with the product positioning of the Company;

2. The iterative upgrade of its supplier management platform (SRM) was completed, which has optimised the system modules and processes, improved the synergy efficiency, and opens up the data link with the QMS system, enabling suppliers to register multiple management systems at one port, which plays a key role in the quality improvement of the supply chain;

3. The Company conducted annual commercial negotiation on type A and B materials based on the products importance classification table, with focus tilting towards the cost on the premise of quality and delivery schedule guarantee adopting a method of supply control of different share according to the cost difference. The Company conducted regular public tender and bidding procurement on type C components.

(2) Introduction Criteria and Control of Suppliers

1. In introducing all suppliers, the Company conducts control on the process of procurement and outsourcing pursuant to "Procurement Control Procedures" (《採購控制程序》). The review on suppliers covers "CCC", "ISO9000" and "IATF16949", etc.

2. The control methods of the Company on suppliers include: the Company conducts control on its suppliers through irregular on-site supervision and inspection (for the control of the supplier's procurement of raw materials, production process, quality control and packaging, etc.), as well as pays attention to and requires the use of environmentally friendly products and services in the production process when selecting suppliers to ensure the environmental requirements of the products provided; the Company meets with suppliers with quality concerns on a regular basis (to analyse reasons, propose schemes and measures for improvement and require such suppliers to submit new samples); and suppliers' annual performance assessment management.

(3) Long-term Procurement of Components

The procurement cycle of certain key import components of the Company was longer, which were exposed to the guarantee risk under the significant growth of the products sales of the Company. Loss for sluggish materials will occur when there is a decline in industry demand. The solution is, based on industry and market information and status, to formulate the rolling plan for long-term product procurement and manage strategic inventories in a scientific and reasonable manner, to set the maximum inventory and agree on the relevant circuit breaker mechanism and subsequent disposal plan when entering into contracts with suppliers. The Company also needs to ensure that all long-term procurement is made based on demand and cycle as well as make timely adjustments, so as to ensure that long-term product procurement meets production needs and avoid sluggish of long-term supplies.

(4) Future Plan and Measures

1. Supplier Strategy Planning

The Company leveraged on the basis of professional procurement management team and excellent supplier team, so as to support the procurement strategy of the Group through continuously improving the competitiveness in terms of the quality, cost and delivery schedule of procurement. The Company adhered to the procurement guideline of "Supplier Management, Usage Management, and Efficiency Management", establishing a stable and quality supply chain system.

2. Protection Measures

① Production capacity: That is "Supplier Management", production capacity of suppliers is planned at 120% of the production plan of the Company, which is required synchronization with the production progress of the Company, and to make sufficient reserve during the low season of production;

② Quality: That is "Usage Management", the Company strengthened the source control and supervised the material procurement, incoming inspection, production process and packaging and transportation;

③ Cost: That is "Efficiency Management", the Company introduced a pricing model for product cost accounting, and adopted a price-setting linkage for fair settlement of products involving fluctuations in raw materials that have a significant impact on costs. The Company encouraged suppliers to adopt new process, new techniques and new materials for cost reduction of products, thus realising mutual development between the Company and its suppliers.

3.2 Product Responsibility

The Company has strictly performed its responsibilities as an enterprise for quality and safety, clearly declared that the President is primary responsible person for quality and safety of products, and has implemented quality management in compliance with the requirements of the ISO9001 system. In terms of the quality, the Company implemented the "Departments and Regions" management, under which the quality management department is responsible for building and implementing product quality plans, quality control and improvement endeavors in an all-round manner.

In terms of product research and development, the Company has established research and development system, and based on such institutional norm to establish the product research and development management system, and continuously developed products that meet market demand for sustainable development and through customer orientation. In the process of product research and development, the requirements of the systems are strictly implemented to ensure the quality of research and development, and to ensure that the products developed meet the requirements of national laws and regulations.

In terms of supplier management, the Company sets up supplier appraisal standards to evaluate suppliers, maintain the stability of the elements incurred in the process of products from suppliers. On-site supervision, data inspection, remote video inspection and other methods will be adopted for suppliers, and product exchange meetings will be organized for suppliers from time to time. It also signs technical agreements, quality guarantee agreements, and agreements on warranty services of repair, replacement and refund with suppliers to keep improving supplier processes and product quality.

In terms of internal quality control, the Company continuously implements a "user-based" management mode and promotes all-staff quality management. It launches an all-round "4M Change Management" mechanism to reduce quality defects from changes in "people, machine, material, and method". The Company adopts a "three-in-one" management model for key processes, combining technology, quality, and production system management. In addition, we manage the "five types of details" to ensure that every aspect of the product meets customer requirements and guarantees stable and reliable product quality. The Company has also implemented a range of audit methods, including product audits, process audits, and system audits, to identify potential risks in process control and product quality. Additionally, the Company adheres to management methods such as "two strictures," "four clarifications and two controls" to ensure continuous improvement in process and product quality.

In terms of improvement of the quality of products, the Company has been improving the quality, and realized classified management and full participation in quality improvement of each employee by "QOMT, QQPS, continuous enhancement of quality, Six Sigma and quality supervision" and other quality improvement with multi-levels.

In terms of after-sales services, the Company adheres to the principle of "sales agency system", and keeps its advantages of "quality, services and value-for-money" while strictly implementing the "one card for one fault" system. It has further improved the QMS electronic information platform to integrate hotlines, emails, and WeChat information communication methods and platforms for accurate, timely, and integrated transmission of messages. This has ensured its after-sales service quality and met customers' demands though training on our after-sales staffs.

In terms of product quality information collection, the Company has set up a daily quality alert platform to provide daily alerts for prompt processing of quality-related issues. At the same time, a Quality Case Manual for typical quality cases is prepared and periodically shared internally, which to a certain extent enables the Company to prevent problems and facilitate continuous improvement of product quality.

The Company attaches great importance to customer satisfaction construction. It makes targeted improvements through customer satisfaction surveys, information collection and analysis to constantly meet customers' needs and enhance the Company's competitiveness.

3.3 Information Privacy and Intellectual Property Protection

The Company is committed to the protection of supplier information and product intellectual property rights and strictly complies with the relevant laws and regulations of the domestic government (including but not limited to the General Principles of the PRC, etc.). The Group has prepared and implemented the Technical Confidentiality Guidelines and strictly requires its staff to comply with the relevant policies and sign confidentiality and non-competition agreements, handle and store partner-related information properly. Various controls have been established to protect partner data information within the system, and the effectiveness of relevant internal controls is reviewed regularly. The ERP system assigns operators with strict permissions based on their duties and responsibilities, which are regularly reviewed. Additionally, all employees who have access to product or bill of material information are required to sign confidentiality and non-competition agreements. We are not aware of any material non-compliance with applicable regulations in relation to the protection of information of partners and intellectual property rights that are material to the Group in FY2022.

3.4 Anti-corruption

The Company believes that preventing the occurrence of corruption, bribery, fraud and extortion is the social responsibility and legal liability it shall assume. Besides, the Company is dedicated to developing a clean and honest culture and system for all stakeholders inside and outside the Company, promoting the idea and philosophy of practice of anti-corruption.

The Company established the Committee of Discipline Inspection of the Chinese Communist Party (黨委紀律檢查委員會) and the Anti-Corruption Office (廉政辦公室) to carry out anti-corruption work independently and accept the report of and deal with all kinds of violations of laws and regulations. With relevant systems such as "Clean Administration of Lonking Holdings Limited" (《中國龍工控股有限公司廉政規定》), "Measures of Lonking Holdings Limited for the Treatment of Accepting Gifts" (《中國龍工控股有限公司收受禮品處置辦法》), "Whistle-Blowing Procedures" (《舉報程序》), "Regulations of Lonking Holdings Limited on Eight Restrictions" (《中國龍工控股有限公司「八不准」規定》), "Commitment Letter on Integrity Matters for Employees in Key Positions" (《關鍵崗位員工廉政事項承諾書》) and "Report Letter on Integrity Matters for Employees in Key Positions" (《關鍵崗位員工廉政事項報告書》) in place, the Anti-Corruption Office, Internal Audit Organisation, Financial Management Department and Risk Management Department of the Company, all as effective units responsible for supervision and management to safeguard each stakeholder to act with integrity, are able to implement effective review and supervision on all kinds of economic activities in an independent manner, ensuring that all anti-corruption and integrity systems are executed in an efficacious manner, thereby promoting the development of anti-corruption culture within the Company.

Major business dealings particularly with more centralized stakeholders including purchasing suppliers and sales agents are executed in strict compliance with various business policies and approval procedures. In order to follow the anti-corruption system of the Company, such stakeholders are required to publicise and sign the "Non-corruption Agreement". For those suppliers and sales agents who refuse to sign the "Non-corruption Agreement" and do not follow the non-corruption requirements of the Company, the Company shall terminate the business cooperation(s) with them. All courtesy gifts inevitably accepted in business dealings shall be under the unified treatment of the Anti-Corruption Office of the holding company to deter relevant departments and business project members of the Company from committing unfavorable business practices against the Company as a result of such gifts.

In entering into major fixed asset transactions, the Company has introduced such bidding management system as it thinks necessary to make the transactions transparent, open and fair, on top of normal business policies and approval management mechanism.

Cadres above the office level and employees on key positions shall sign the "Integrity Matters Commitment Letter" on a yearly basis and sign the "Integrity Matters Report Letter" at the end of every year to restrict employees' behavior and strengthen the concept of integrity practice. The Company urged all immediate departments and subsidiaries to organise training and education on the integrity system for all employees in order to strengthen their awareness of integrity and encourage them to participate in anti-corruption and anti-corruption activities.

The independent operation of internal management structure can ensure each stakeholder can get an appropriate solution when interests are impaired. During the year, Internal Audit Organisation, Anti-Corruption Office, Financial Management Department, and Risk Management Department did not receive any complaints about corruption and blackmailing related to the stakeholders, which violated the laws and the anti-corruption requirement of the Company.

3.5 Community Investment

The Company has been actively involved in philanthropy, including actively participating in poverty alleviation work and disaster relief activities, and has made particular effort to help the poor and the needy, provide medical and educational support, improve infrastructures in poor rural area, and support the poor to develop production to increase their income. We have been recognised by the local provincial and municipal governments for many times. The aforesaid efforts have established the Company a good corporate image and enhanced employees' sense of social responsibility. The Company spares no effort for charity and has made a total of RMB10.16 million in all kinds of charitable donations over the past five years.

Independent Auditor's Report

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌
英皇道979號
太古坊一座27樓

Tel電話: +852 2846 9888
Fax傳真: +852 2868 4432
ey.com

To the shareholders of Lonking Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Lonking Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 67 to 165, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report

KEY AUDIT MATTERS *(CONTINUED)*

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

Key audit matter	How our audit addressed the key audit matter
Recoverability of receivables The Group's receivables consisted of trade and bills receivables, loans and other receivables and long-term receivables, and accounted for 18% of the Group's total assets. Recoverability of receivables is greatly affected by the overall condition of the economy. The assessment of impairment of these receivables requires the judgements and assumptions made by management. HKFRS 9 requires that the Group measures the impairment of financial assets based on the "expected credit losses" ("ECLs"). In order to measure the ECLs of the receivables, significant judgements and assumptions are applied by management, including customer payment patterns, product types, credit risk and forward-looking information such as macroeconomic factors. Given the significance of the receivable balances and the complexity of judgements and estimations in assessing the allowance for expected credit losses, we considered this area as a key audit matter for the Group. Details of the recoverability of the receivables are disclosed in notes 16, 18, 19 and 41 to the financial statements.	The audit procedures we performed in relation to the recoverability of receivables included: – Obtained an understanding of the process of management's assessment of the impairment of trade and other receivables; – Examined the assumptions and judgements regarding the expected credit loss provision on trade and other receivables including assumptions in respect of the realisable value of collateral, especially the aged receivables and receivables in dispute; – Assessed the appropriateness of the approach and the models along with the key assumptions and parameters used in the expected credit loss matrix on trade receivables by testing the accuracy and completeness of the data used in developing the historical loss rates and forward-looking information, and by evaluating customers' historical payment patterns; – Tested the accuracy of the ageing of trade receivables and other receivables on a sample basis against supporting documents; and – Assessed the adequacy of the disclosures on the trade and other receivables in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ho Wai Ling.

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2023

Consolidated Statement of Profit or Loss

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	4	**11,150,234**	13,690,520
Cost of sales		**(9,283,208)**	(11,233,102)
Gross profit		**1,867,026**	2,457,418
Other income	5	**61,516**	71,758
Other gains and losses	5	**(270,806)**	350,439
Selling and distribution expenses		**(509,351)**	(701,272)
Administrative expenses		**(240,681)**	(249,783)
Impairment losses on financial assets, net		**(50,633)**	(4,875)
Research and development costs		**(516,019)**	(622,557)
Other expenses		**(121)**	(83)
Finance income	5	**117,680**	163,300
Finance costs	6	**(19,687)**	(11,432)
PROFIT BEFORE TAX	7	**438,924**	1,452,913
Income tax expense	10	**(38,584)**	(177,487)
PROFIT FOR THE YEAR		**400,340**	1,275,426
Attributable to:			
Owners of the parent		**400,454**	1,275,383
Non-controlling interests		**(114)**	43
		400,340	1,275,426
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
– For profit for the year (RMB)	12	**0.09**	0.30

Consolidated Statement of Comprehensive Income

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
PROFIT FOR THE YEAR		**400,340**	1,275,426
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Financial assets at fair value through other comprehensive income:			
Changes in fair value		**–**	(2,955)
Income tax effect		**–**	446
		–	(2,509)
Exchange differences:			
Exchange differences on translation of foreign operations		**(88,539)**	24,507
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(88,539)**	21,998
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(88,539)**	21,998
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**311,801**	1,297,424
Attributable to:			
Owners of the parent		**311,915**	1,297,381
Non-controlling interests		**(114)**	43
		311,801	1,297,424

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	13	**2,097,096**	2,063,046
Right-of-use assets	14	**130,228**	135,142
Finance lease receivables	15	**–**	40
Prepayments for property, plant and equipment		**25,013**	45,552
Long-term receivables	16	**160,908**	478,057
Equity investments at fair value through other comprehensive income	21	**1,000**	1,450
Financial assets at fair value through profit or loss	22	**618,437**	640,370
Derivative financial instruments	23	**40,548**	–
Deferred tax assets	30	**375,809**	414,433
Pledged deposits	24	**356,000**	356,212
Total non-current assets		**3,805,039**	4,134,302
Current assets			
Inventories	17	**3,591,273**	4,061,078
Finance lease receivables	15	**254**	726
Trade and bills receivables	18	**2,453,314**	3,255,311
Due from related parties	37	**2,134**	6,040
Prepayments, other receivables and other assets	19	**531,650**	643,965
Financial assets at fair value through other comprehensive income	20	**161,289**	201,951
Financial assets at fair value through profit or loss	22	**1,513,749**	1,845,817
Pledged deposits	24	**1,300,255**	428,022
Cash and cash equivalents	24	**2,031,973**	2,025,005
Total current assets		**11,585,891**	12,467,915
Current liabilities			
Trade and bills payables	25	**3,793,466**	4,301,695
Other payables and accruals	26	**864,512**	1,060,381
Due to related parties	37	**10,585**	16,727
Tax payable		**80,774**	126,321
Provisions	29	**111,564**	151,195
Deferred income	31	**4,100**	2,859
Total current liabilities		**4,865,001**	5,659,178

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Net current assets		**6,720,890**	6,808,737
Total assets less current liabilities		**10,525,929**	10,943,039
Non-current liabilities			
Deposits for finance leases	*15*	**35**	37
Interest-bearing bank borrowings	*27*	**708,161**	648,281
Deferred tax liabilities	*30*	**38,954**	63,577
Provisions	*29*	**5,919**	11,075
Deferred income	*31*	**21,705**	15,280
Total non-current liabilities		**774,774**	738,250
Net assets		**9,751,155**	10,204,789
Equity			
Equity attributable to owners of the parent			
Issued capital	*32*	**444,116**	444,116
Share premium and reserves	*33*	**9,304,629**	9,758,149
		9,748,745	10,202,265
Non-controlling interests		**2,410**	2,524
Total equity		**9,751,155**	10,204,789

Li San Yim
DIRECTOR

Yin Kun Lun
DIRECTOR

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Issued capital RMB'000	Share premium* RMB'000	Special reserve* RMB'000	Non-distributable reserve* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Retained profits* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022	**444,116**	**854,922**	**419,905**	**1,811,646**	**–**	**7,048,472**	**(376,796)**	**10,202,265**	**2,524**	**10,204,789**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**400,454**	**–**	**400,454**	**(114)**	**400,340**
Exchange differences related to foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**(88,539)**	**(88,539)**	**–**	**(88,539)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**400,454**	**(88,539)**	**311,915**	**(114)**	**311,801**
Final 2021 dividend declared	**–**	**–**	**–**	**–**	**–**	**(765,435)**	**–**	**(765,435)**	**–**	**(765,435)**
Transfer from retained profits	**–**	**–**	**8,985**	**41,862**	**–**	**(50,847)**	**–**	**–**	**–**	**–**
At 31 December 2022	**444,116**	**854,922**	**428,890**	**1,853,508**	**–**	**6,632,644**	**(465,335)**	**9,748,745**	**2,410**	**9,751,155**

* These reserve accounts comprise the consolidated share premium and reserves of RMB9,304,629,000 (2021: RMB9,758,149,000) in the consolidated statement of financial position.

	Issued capital RMB'000	Share premium* RMB'000	Special reserve* RMB'000	Non-distributable reserve* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Retained profits* RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	444,116	854,922	417,398	1,772,804	2,509	7,001,348	(401,303)	10,091,794	2,481	10,094,275
Profit for the year	–	–	–	–	–	1,275,383	–	1,275,383	43	1,275,426
Other comprehensive income/(loss) for the year:										
Changes in fair value of financial assets at fair value through other comprehensive income, net of tax	–	–	–	–	(2,509)	–	–	(2,509)	–	(2,509)
Exchange differences related to foreign operations	–	–	–	–	–	–	24,507	24,507	–	24,507
Total comprehensive income for the year	–	–	–	–	(2,509)	1,275,383	24,507	1,297,381	43	1,297,424
Final 2020 dividend declared	–	–	–	–	–	(1,186,910)	–	(1,186,910)	–	(1,186,910)
Transfer from retained profits	–	–	2,507	38,842	–	(41,349)	–	–	–	–
At 31 December 2021	444,116	854,922	419,905	1,811,646	–	7,048,472	(376,796)	10,202,265	2,524	10,204,789

Consolidated Statement of Cash Flows

Year Ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**438,924**	1,452,913
Adjustments for:			
Finance costs	*6*	**18,818**	8,550
Interest income	*5*	**(117,680)**	(163,300)
Impairment losses on financial assets, net		**50,633**	4,875
Provision for inventories	*5*	**(2,156)**	(2,940)
(Gain)/loss on disposal of items of property, plant and equipment	*5*	**(688)**	1,516
Depreciation of property, plant and equipment	*13*	**270,590**	285,775
Depreciation of right-of-use assets	*14*	**4,930**	5,044
Amortisation of deferred income	*31*	**(3,867)**	(3,277)
Gains from derivative instruments	*5*	**(39)**	(8,028)
Gains from notes receivable	*5*	**–**	(6,242)
Fair value (gains)/losses, net:			
Financial assets at fair value through profit or loss	*5*	**348,545**	(139,606)
Derivative instruments – transactions not qualifying as hedges	*5*	**(40,548)**	–
Dividend income from financial assets at fair value through profit or loss	*5*	**(22,601)**	–
Gain on disposal of a subsidiary	*5*	**–**	(213,530)
Exchange loss/(gain) from bank balances		**(169)**	4,911
Exchange loss/(gain) from bank loans and others		**(34,107)**	3,835
		910,585	1,230,496
Decrease/(increase) in inventories		**471,961**	(304,412)
Decrease in trade, bills and other receivables		**1,234,432**	246,331
Decrease in finance lease receivables		**517**	3,411
Decrease in amounts due from related parties		**3,906**	7,157
Decrease in trade, bills and other payables		**(756,443)**	(588,612)
Decrease in provisions		**(44,787)**	(3,051)
Decrease in amounts due to related parties		**(6,142)**	(1,727)
Decrease in deposits for finance leases		**(1,389)**	(435)
Increase in deferred income		**11,533**	6,060
Cash generated from operations		**1,824,173**	595,218
Interest received		**102,684**	141,492
Income tax paid		**(70,130)**	(317,026)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,856,727**	419,684

Consolidated Statement of Cash Flows

Year Ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(239,267)**	(382,399)
Increase in pledged for purchasing financial assets at fair value through profit or loss in 2023		**(800,000)**	–
Proceeds from disposal of interests in associates		**450**	–
Disposal of a subsidiary	*28*	**–**	268,457
Proceeds from disposal of items of property, plant and equipment		**3,388**	9,704
Return of financial asset investments		**5,456**	–
Dividend income from financial assets at fair value through profit or loss	*5*	**22,601**	–
Gain/(loss) from derivative financial instruments	*5*	**7,682**	(1,406)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(999,690)**	(105,644)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	*11*	**(765,435)**	(1,186,910)
Interest paid		**(18,818)**	(11,432)
(Increase)/decrease in pledged for bank loans, bank acceptance bills and others		**(72,021)**	53,313
Interest from pledged deposits received		**2,049**	74,374
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(854,225)**	(1,070,655)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,812**	(756,615)
Cash and cash equivalents at beginning of year		**2,025,005**	2,780,567
Effect of foreign exchange rate changes, net		**4,156**	1,053
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,031,973**	2,025,005

Notes to Financial Statements

31 December 2022

1. CORPORATE AND GROUP INFORMATION

Lonking Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2000 Revision) Chapter 22 of the Cayman Islands on 11 May 2004 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Ms. Ngai Ngan Ying, a non-executive director of the Company, is the ultimate controller of the Company.

The addresses of the registered office and principal place of business of the Company are disclosed in the introduction in the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company's subsidiaries, except for China Dragon Development Ltd. and China Dragon Investment Ltd. The functional currency of the Company, China Dragon Development Ltd. and China Dragon Investment Ltd. is the Hong Kong dollar ("HK$").

The principal activities of the Company and its subsidiaries (the "Group") are the manufacture and distribution of wheel loaders, road rollers, excavators, forklifts and other construction machinery and the provision of finance leases for construction machinery.

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

Name	Place and date of incorporation/registration and type of entity	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lonking Shanghai Machinery Co., Ltd. (龍工(上海)機械製造有限公司)	13 August 2004 People's Republic of China ("PRC") Sino-foreign equity joint venture	HK$448,000,000	–	99.89%	Manufacture and distribution of wheel loaders
Lonking (Shanghai) Precision Hydraulic Component Co., Ltd. (龍工(上海)精工液壓有限公司, formerly known as Lonking (Shanghai) Axle & Transmission Co., Ltd.)	17 September 2001 PRC wholly-owned-foreign investment enterprise ("WOFE")	HK$168,000,000	–	100%	Manufacture and distribution of axles and gear boxes

Notes to Financial Statements

31 December 2022

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Name	Place and date of incorporation/registration and type of entity	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Lonking Fujian Machinery Co., Ltd. (龍工(福建)機械有限公司)	15 September 2004 PRC WOFE	HK$400,000,000	–	100%	Manufacture and distribution of wheel loaders
Fujian Longyan Lonking Machinery Components Co., Ltd. (福建龍岩龍工機械配件有限公司)	1 March 1999 PRC WOFE	HK$29,680,000	–	100%	Manufacture and distribution of wheel loader components
Lonking (Shanghai) Hydraulic (龍工(上海)液壓機械有限公司, formerly known as Hydraulics (Shanghai) Hydraulics Machinery Co., Ltd.)	30 September 2003 PRC WOFE	US$31,800,000	–	100%	Manufacture and distribution of wheel loader components
Lonking (Shanghai) Machinery Components Co., Ltd. (龍工(上海)機械部件有限公司, formerly known as Refined (Shanghai) Machinery Co., Ltd.)	27 November 2003 PRC WOFE	HK$50,000,000	–	100%	Manufacture and distribution of wheel loader components
Lonking (Jiangxi) Machinery Co., Ltd. (龍工(江西) 機械有限公司)	12 September 2003 PRC WOFE	RMB257,350,253	–	100%	Manufacture and distribution of wheel loader components
Lonking (Fujian) Hydraulics Machinery Co., Ltd. (龍工(福建)液壓有限公司)	15 January 2007 PRC WOFE	HK$100,000,000	–	100%	Manufacture and distribution of wheel loader components
Lonking (Fujian) Axle & Transmission Co., Ltd. (龍工(福建)橋箱有限公司)	16 January 2007 PRC WOFE	HK$200,000,000	–	100%	Manufacture and distribution of axles and gear boxes

Notes to Financial Statements

31 December 2022

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Name	Place and date of incorporation/registration and type of entity	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lonking (Shanghai) Road Machinery Construction Co., Ltd. (龍工(上海)路面機械製造有限公司)	12 September 2007 PRC Sino-foreign equity joint venture	HK$100,000,000	–	100%	Manufacture and distribution of wheel loaders and road rollers
Lonking (Shanghai) Excavator Co., Ltd. (龍工(上海)挖掘機製造有限公司)	12 September 2007 PRC WOFE	HK$260,000,000	–	100%	Manufacture and distribution of excavators
Lonking (Shanghai) Forklift Sales (龍工(上海)叉車銷售有限公司, formerly known as Monarch (Shanghai) Machinery Co., Ltd.)	1 January 2007 PRC WOFE	HK$83,600,000	–	100%	Distribution of forklifts
Lonking (Shanghai) Forklift Co., Ltd. (龍工(上海)叉車有限公司)	7 February 2007 PRC WOFE	HK$500,000,000	–	100%	Manufacture and distribution of forklifts
Lonking (Shanghai) Financial Leasing Co., Ltd. (龍工(上海)融資租賃有限公司)	28 March 2008 PRC WOFE	US$23,000,000	–	100%	Finance leasing for wheel loaders and other machinery
Lonking (China) Machinery Sales Co., Ltd. (龍工(中國)機械銷售有限公司)	12 September 2008 PRC WOFE	RMB850,000,000	–	100%	Distribution of wheel loaders and other machinery
Lonking (Fujian) International Trade (龍工(福建)國際貿易有限公司)	19 June 2008 PRC WOFE	RMB30,000,000	–	100%	Distribution of wheel loaders and other machinery

Notes to Financial Statements

31 December 2022

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Name	Place and date of incorporation/registration and type of entity	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lonking (Fujian) Casting & Forging Co., Ltd. (龍工(福建)鑄鍛有限公司)	13 August 2008 PRC WOFE	US$65,000,000	–	100%	Manufacture and distribution of wheel loader components
China Dragon Development Holdings Ltd. (中國龍工發展控股有限公司) *(note 1)*	3 May 2004 British Virgin Islands ("BVI")	US$50,000	100%	–	Investment holding
China Dragon Investment Holdings Ltd. (中國龍工投資控股有限公司) *(note 1)*	3 May 2004 BVI	US$50,000	100%	–	Investment holding
Lonking (Fujian) Excavator Co., Ltd. (龍工(福建)挖掘機有限公司)	20 September 2010 PRC WOFE	RMB100,000,000	–	100%	Manufacture and distribution of excavators
Lonking (Shanghai) Excavator Sales Co., Ltd. (龍工(上海)挖掘機銷售有限公司)	17 December 2018 PRC WOFE	RMB20,000,000	–	100%	Distribution of excavators

Note 1: The Company directly holds the interests in China Dragon Development Holdings Ltd. and China Dragon Investment Holdings Ltd. All other interests shown above are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

Notes to Financial Statements

31 December 2022

2.1 BASIS OF PREPARATION

These 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, wealth management products and equity investments which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as 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).

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

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

(b) rights arising from other contractual arrangements; and

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

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

Notes to Financial Statements

31 December 2022

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

The nature and the impact of the revised HKFRSs that are applicable to the Group 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. 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. 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. No onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

Notes to Financial Statements

31 December 2022

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

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

Notes to Financial Statements

31 December 2022

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

[1] Effective for annual periods beginning on or after 1 January 2023

[2] Effective for annual periods beginning on or after 1 January 2024

[3] No mandatory effective date yet determined but available for adoption

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

[5] As a consequence of the amendments to 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

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

These HKFRSs are expected to be applicable to the Group for annual periods beginning on or after the effective date. These new and amended HKFRSs are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

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

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

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

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

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

Related parties

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

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

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties *(continued)*

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

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

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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

Buildings	3% to 13%
Plant and machinery	9% to 32%
Motor vehicles	10% to 19%
Furniture and fixtures	9% to 32%

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

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

Construction in progress represents buildings and machinery under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and installation, and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Research and development costs

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

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

Leases

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

Group as a lessee

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

(a) *Right-of-use assets*

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Group as a lessee (continued)

(a) *Right-of-use assets (continued)*

Leasehold land	50 years

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

(b) *Short-term leases and leases of low-value assets*

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

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss. Contingent rents are recognised as other income in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease.

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement *(continued)*

Financial assets at fair value through profit or loss

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

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

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

Derecognition of financial assets

A financial asset is primarily derecognised when:

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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

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

Impairment of financial assets

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

General approach

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

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

General approach *(continued)*

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk of debt investments since origination, the allowance will be based on the lifetime ECL.

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

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

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

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

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Simplified approach

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and bills payables, financial liabilities included in other payables and accruals, deposit for finance leases, interest-bearing bank borrowings and an amount due to related parties.

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities *(continued)*

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Inventories

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

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

Provisions

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

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

The Group provides for warranties in relation to the sale of certain industrial products occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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

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

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

Government grants

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

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue from contracts with customers

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

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

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

Sale of industrial products

Revenue from the sale of industrial products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the industrial products.

Other income

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract liabilities

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

Employee benefits

Pension scheme

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

Termination benefits

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

Borrowing costs

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

Dividends

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

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

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

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

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

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

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

3. SIGNIFICANT ACCOUNTING 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:

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses 31 December 2022 was RMB3,426,000 (2021: RMB15,466,000). The amount of unrecognised tax losses 31 December 2022 was RMB24,071,000 (2021: nil). Further details are contained in note 30 to the financial statements.

Deferred tax liabilities

Deferred tax liabilities are recognised for withholding corporate income taxes relating to the unremitted earnings of the Group's subsidiaries established in Mainland China that are subject to withholding taxes. Significant management judgement is required to determine the amount of deferred tax liabilities, based upon the likely distribution level of such earnings from these subsidiaries in the foreseeable future. The carrying value of deferred tax liabilities arising from the withholding tax associated with the investments in subsidiaries in Mainland China for the year ended 31 December 2022 was RMB14,928,000 (31 December 2021: RMB43,051,000). Further details are contained in note 30 to the financial statements.

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

Estimation uncertainty

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

Provision for expected credit losses on trade and other receivables

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

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 (i.e., gross domestic products) 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 and other receivables is disclosed in notes 18 and 19 to the financial statements.

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.

Notes to Financial Statements

31 December 2022

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

Estimation uncertainty *(continued)*

Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

Provision for warranty costs

As explained in note 29, the Group offers an 18-month warranty for excavators and a 12-month warranty for wheel loaders (the warranty period of four major parts is extended from 12-month to 24-month from 2021), road rollers and forklifts, during which free warranty service for the repair and maintenance of parts and components under normal usage is provided to the customers. The provision for warranty costs is based on the historical experience and statistics. As 31 December 2022, the carrying amount of provision for warranty costs was RMB117,483,000 (2021: RMB162,270,000).

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 40 to the financial statements. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks. The Group classifies the fair value of these investments as Level 2. The fair value of the unlisted equity investments 31 December 2022 was RMB1,911,383,000 (2021: RMB2,269,989,000). Further details are included in note 22 to the financial statements.

Variable consideration for sales rebates

The Group's expected sales rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date. The Group updates its assessment of expected sales rebates quarterly. Estimates of expected sales rebates are sensitive to changes in circumstances and the Group's past experience regarding rebate entitlements may not be representative of customers' actual rebate entitlements in the future. As at 31 December 2022, the amount recognised as refund liabilities was RMB303,123,000 (2021: RMB609,493,000) for the expected rebates.

Notes to Financial Statements

31 December 2022

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) sale of construction machinery

(b) finance lease of construction machinery

(c) financial investment

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, non-lease-related finance costs as well as head office and corporate other income and expenses are excluded from such measurement.

Segment assets exclude corporate and other unallocated assets, which comprise deferred tax assets, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude corporate and other unallocated liabilities, which comprise interest-bearing bank borrowings, withholding tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to Financial Statements

31 December 2022

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2022	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Financial investment RMB'000	Total RMB'000
Segment revenue	11,150,156	78	–	11,150,234
Segment results	627,173	(11)	(285,357)	341,805
Reconciliation:				
Interest income				117,680
Unallocated other income and gains				11,707
Corporate and other unallocated expenses				(12,581)
Finance costs				(19,687)
Profit before tax				438,924
Segment assets	13,009,171	41,853	2,203,791	15,254,815
Corporate and other unallocated assets				136,115
Total assets				15,390,930
Segment liabilities	4,833,163	10,421	68,732	4,912,316
Corporate and other unallocated liabilities				727,459
Total liabilities				5,639,775
OTHER SEGMENT INFORMATION				
Impairment of financial assets, net	50,638	(5)	–	50,633
Reversal of provision for inventories	(2,156)	–	–	(2,156)
Depreciation	275,520	–	–	275,520
Capital expenditure*	305,895	–	–	305,895

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Notes to Financial Statements

31 December 2022

4. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2021	Sale of construction machinery RMB'000	Finance lease of construction machinery RMB'000	Financial investment RMB'000	Total RMB'000
Segment revenue	13,690,314	206	–	13,690,520
Segment results	1,183,378	134	149,040	1,332,552
Reconciliation:				
Interest income				163,300
Unallocated other income and gains				(19,797)
Corporate and other unallocated expenses				(11,710)
Finance costs				(11,432)
Profit before tax				1,452,913
Segment assets	13,889,076	87,465	2,486,187	16,462,728
Corporate and other unallocated assets				139,489
Total assets				16,602,217
Segment liabilities	5,622,826	11,619	76,590	5,711,035
Corporate and other unallocated liabilities				686,393
Total liabilities				6,397,428
OTHER SEGMENT INFORMATION				
Impairment of financial assets, net	4,911	(36)	–	4,875
Provision for inventories	(2,940)	–	–	(2,940)
Depreciation	290,819	–	–	290,819
Capital expenditure*	358,179	–	–	358,179

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Notes to Financial Statements

31 December 2022

4. OPERATING SEGMENT INFORMATION *(continued)*

Revenue derived from major products and services

The following is an analysis of the Group's revenue derived from its major products and services:

	2022		2021	
	RMB'000	%	RMB'000	%
Wheel loaders	**5,213,928**	**46.8**	6,610,752	48.3
Forklifts	**3,373,324**	**30.2**	3,516,172	25.7
Excavators	**1,109,172**	**9.9**	1,872,611	13.7
Road rollers	**64,686**	**0.6**	81,200	0.6
Others	**1,389,046**	**12.5**	1,609,579	11.7
Subtotal	**11,150,156**	**100.0**	13,690,314	100.0
Finance lease interest income	**78**	**0.0**	206	0.0
Total	**11,150,234**	**100.0**	13,690,520	100.0

There was no revenue from a single customer accounted for 10% or more of the total revenue of the Group for the year.

Revenue is recognised when goods are transferred at a point in time.

Approximately 23% (2021: 11%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, with 100% (2021: 100%) of the costs denominated in the units' functional currencies.

Geographical information

The Group's operations are substantially located in Mainland China and substantially all non-current assets of the Group are located in Mainland China. Therefore, no further analysis of geographical information is presented.

Notes to Financial Statements

31 December 2022

5. OTHER INCOME, FINANCE INCOME AND OTHER GAINS AND LOSSES

	2022 RMB'000	2021 RMB'000
Finance income		
Bank interest income	**117,680**	163,300
Other income		
Government grants	**50,948**	64,127
Penalty income	**408**	473
Others	**10,160**	7,158
	61,516	71,758

	2022 RMB'000	2021 RMB'000
Other gains and losses		
Gains/(Losses) on foreign exchange gains	**11,707**	(18,391)
Gains from derivative financial instruments	**39**	8,028
Dividend income from financial assets at fair value through profit or loss	**22,601**	–
Gains from notes receivable	**–**	6,242
Reversal of provision for inventories	**2,156**	2,940
Gains/(Losses) on disposal of items of property, plant and equipment	**688**	(1,516)
Fair value gains, net:		
Financial assets at fair value through profit or loss – held for trading	**(348,545)**	139,606
Derivative financial instruments – transactions not qualifying as hedges	**40,548**	–
Gains on disposal of a subsidiary *(note 28)*	**–**	213,530
	(270,806)	350,439

Notes to Financial Statements

31 December 2022

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 RMB'000	2021 RMB'000
Interest on bank loans	**17,931**	7,327
Total interest expense on financial liabilities not at fair value through profit or loss	**17,931**	7,327
Other finance costs:		
Interest on discounted notes receivable	**869**	2,882
Other financial costs	**887**	1,223
	19,687	11,432

Notes to Financial Statements

31 December 2022

7. PROFIT BEFORE TAX

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

	2022 RMB'000	2021 RMB'000
Cost of inventories sold	**8,756,277**	10,609,999
Depreciation of property, plant and equipment *(note 13)*	**270,590**	285,775
Depreciation of right-of-use assets *(note 14)*	**4,930**	5,044
Research and development costs	**516,019**	622,557
Auditor's remuneration	**2,908**	2,880
Employee benefit expense (excluding directors' remuneration *(note 8)*):		
Wages and salaries	**734,982**	839,585
Contributions to a pension scheme	**61,713**	56,701
Foreign exchange differences, net	**(11,707)**	18,391
Impairment of financial assets, net		
– trade receivables *(note 18)*	**45,907**	(3,627)
– other receivables *(note 19)*	**4,731**	8,538
– financial lease receivables *(note 15)*	**(5)**	(36)
	50,633	4,875
Reversal of provision for inventories	**(2,156)**	(2,940)
Product warranty provision:		
Additional provision *(note 29)*	**132,317**	227,150
Bank interest income	**(117,680)**	(163,300)
(Gains)/Losses on disposal of items of property, plant and equipment	**(688)**	1,516
Fair value losses/(gains), net:		
Financial assets at fair value through profit or loss – held for trading	**348,545**	(139,606)
Derivative instruments – transactions not qualifying as hedges	**(40,548)**	–
Gains on disposal of a subsidiary	**–**	(213,530)
Dividend income from financial assets at fair value through profit or loss	**(22,601)**	–
Gains from derivative financial instruments	**(39)**	(8,028)

Notes to Financial Statements

31 December 2022

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2022	2021
	RMB'000	RMB'000
Fees	**1,650**	1,650
Other emoluments:		
Salaries, allowances and discretionary bonuses	**13,329**	14,939
Pension scheme contribution	**172**	165
	13,501	15,104
	15,151	16,754

(a) Independent non-executive directors

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

	2022	2021
	RMB'000	RMB'000
Dr. Qian Shizheng	**200**	200
Mr Wu Jianming	**100**	100
Mr Yu Tai Wei	**150**	150
	450	450

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

Notes to Financial Statements

31 December 2022

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

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

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022					
Chief executive:					
Mr. Li San Yim	–	6,840	3,189	–	10,029
Executive directors:					
Mr. Chen Chao	–	600	600	59	1,259
Mr. Zheng Kewen	–	600	600	59	1,259
Mr. Yin Kunlun	–	400	500	54	954
	–	1,600	1,700	172	3,472
Non-executive director:					
Ms. Ngai Ngan Ying	1,200	–	–	–	1,200
	1,200	8,440	4,889	172	14,701

Notes to Financial Statements

31 December 2022

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

(b) Executive directors, a non-executive director and the chief executive *(continued)*

	Fees RMB'000	Salaries and allowances RMB'000	Discretionary bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2021					
Chief executive:					
Mr. Li San Yim	–	6,840	4,899	–	11,739
Executive directors:					
Mr. Chen Chao	–	600	600	57	1,257
Mr. Zheng Kewen	–	600	600	57	1,257
Mr. Yin Kunlun	–	400	400	51	851
	–	1,600	1,600	165	3,365
Non-executive director:					
Ms. Ngai Ngan Ying	1,200	–	–	–	1,200
	1,200	8,440	6,499	165	16,304

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group in 2022 and 2021 were all directors of the Company and details of their remuneration are included in note 8 above.

Notes to Financial Statements

31 December 2022

10. INCOME TAX

	2022 RMB'000	2021 RMB'000
Current tax:		
Charged for the year	**(21,931)**	111,180
Underprovision in prior years	**3,212**	2,424
Withholding tax paid	**43,302**	32,107
	24,583	145,711
Deferred tax *(note 30)*	**14,001**	31,776
Total tax charge for the year	**38,584**	177,487

The Company, China Dragon Development Holdings Ltd. and China Dragon Investment Holdings Ltd. are tax exempted companies registered in the Cayman Islands or British Virgin Islands. No provision for Hong Kong profits tax has been made as the Group's profit neither arose in nor was derived from Hong Kong during the year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries has become 25% from 1 January 2008 onwards.

(a) There are 13 entities that have maintained the qualifications of "High and New Technology Enterprises" ("HNTE"). In accordance with the EIT Law, they were subject to income tax at a rate of 15% for the effective years.

(b) The EIT Law imposes withholding tax on dividends distributed by the Group's subsidiaries in Mainland China to the holding companies located off-shore starting from 1 January 2008. In 2009, the off-shore intermediate holding companies were recognised as the tax residents of Hong Kong by the Inland Revenue Department of Hong Kong. The tax bureaus in charge of the subsidiaries elect to apply a 5% preferential withholding income tax rate on the dividends based on the tax treaty between the Hong Kong Special Administrative Region and Mainland China. In view of the above, a 5% withholding tax rate is applicable to the dividends, for the period starting from 1 January 2009, distributed by the PRC subsidiaries to these off-shore companies, and was also applicable in 2022.

Notes to Financial Statements

31 December 2022

10. INCOME TAX *(continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2022		2021	
	RMB'000	**%**	RMB'000	%
Profit before tax	**438,924**		1,452,913	
Tax at the statutory tax rate of 25% (2021: 25%)	**109,731**	**25.0**	363,228	25.0
Different tax rates for specific entities *(i)*	**–**	**(0.0)**	(32,604)	(2.3)
Expenses not deductible for tax *(ii)*	**9,706**	**2.2**	16,439	1.1
Adjustments in respect of current tax of previous periods	**3,212**	**0.7**	2,424	0.2
Tax losses utilised from previous periods	**–**	**(0.0)**	(712)	(0.0)
Tax incentives on eligible research and development expenditures	**(72,347)**	**(16.5)**	(86,062)	(6.0)
Tax losses not recognised	**24,071**	**5.5**	–	(0.0)
Effect of withholding tax	**15,179**	**3.5**	25,611	1.8
Effect of the preferential tax rate of 15%	**(50,968)**	**(11.6)**	(110,837)	(7.6)
Tax charge and effective tax rate for the year	**38,584**	**8.8**	177,487	12.2

(i) Income tax on the investment gain on disposal of a subsidiary has been provided at the rate of 10%.

(ii) Expenses not deductible for tax purposes generally refer to expenses without proper tax deductible documents and other miscellaneous expenses which are in excess of the allowable tax deduction limit, such as entertainment expenses.

Notes to Financial Statements

31 December 2022

11. DIVIDENDS

	2022 RMB'000	2021 RMB'000
Proposed final – HK$0.10 (2021: HK$0.33) per ordinary share	**374,851**	765,435

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of RMB4,280,100,000 (2021: RMB4,280,100,000) in issue during the year. The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

Notes to Financial Statements

31 December 2022

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2022	1,685,566	3,907,212	52,081	160,545	94,866	5,900,270
Additions	548	29,322	1,909	2,912	271,188	305,879
Transfers	6,708	150,527	2,283	4,021	(163,539)	–
Disposals	(10)	(18,474)	(4,519)	(1,024)	(595)	(24,622)
Exchange realignment	1,767	–	–	33	–	1,800
At 31 December 2022	1,694,579	4,068,587	51,754	166,487	201,920	6,183,327
Accumulated depreciation and impairment						
At 1 January 2022	839,382	2,834,209	44,783	118,850	–	3,837,224
Charge for the year	82,207	176,162	2,391	9,830	–	270,590
Disposals	–	(16,945)	(4,230)	(747)	–	(21,922)
Exchange realignment	303	–	–	36	–	339
At 31 December 2022	921,892	2,993,426	42,944	127,969	–	4,086,231
Carrying amount						
At 31 December 2022	772,687	1,075,161	8,810	38,518	201,920	2,097,096

Notes to Financial Statements

31 December 2022

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

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2021	1,685,735	3,594,960	50,787	154,597	163,428	5,649,507
Additions	11,691	31,010	997	4,407	310,014	358,119
Transfers	64,058	307,330	1,943	4,868	(378,199)	–
Disposals	–	(22,722)	(1,643)	(1,838)	(377)	(26,580)
Disposal of a subsidiary	(75,356)	(3,366)	(3)	(1,479)	–	(80,204)
Exchange realignment	(562)	–	–	(10)	–	(572)
At 31 December 2021	1,685,566	3,907,212	52,081	160,545	94,866	5,900,270
Accumulated depreciation and impairment						
At 1 January 2021	809,453	2,659,672	42,244	111,869	–	3,623,238
Charge for the year	81,785	190,683	3,887	9,420	–	285,775
Disposals	–	(13,009)	(1,345)	(1,006)	–	(15,360)
Disposal of a subsidiary	(51,760)	(3,137)	(3)	(1,421)	–	(56,321)
Exchange realignment	(96)	–	–	(12)	–	(108)
At 31 December 2021	839,382	2,834,209	44,783	118,850	–	3,837,224
Carrying amount						
At 31 December 2021	846,184	1,073,003	7,298	41,695	94,866	2,063,046

The construction in progress is mainly related to the construction of factory premises and production plants which has not been completed at the end of the reporting period.

As 31 December 2022, the Group was in the process of applying for title certificates of certain buildings with a carrying amount of RMB12,215,000 (2021: RMB14,215,000). The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as 31 December 2022.

As 31 December 2022, no property, plant and equipment of the Group were pledged (2021: Nil).

Notes to Financial Statements

31 December 2022

14. LEASES

The Group as a lessee

The Group has lease contracts for leasehold land. Lump sum payments were made upfront to acquire the leased land from the government with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases.

(a) Right-of-use assets

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

	Leasehold land RMB'000
As at 1 January 2021	169,431
Additions	60
Depreciation charge	(5,044)
Disposal of a subsidiary	(29,305)
As At 31 December 2021 and 1 January 2022	135,142
Additions	16
Depreciation charge	(4,930)
As at 31 December 2022	130,228

(b) The amount recognised in profit or loss in relation to leases is as follows:

	2022 **RMB'000**	2021 RMB'000
Depreciation charge of right-of-use assets	**4,930**	5,044

Notes to Financial Statements

31 December 2022

15. FINANCE LEASE RECEIVABLES

	Minimum lease payments		Present value of minimum lease payments	
	2022	2021	**2022**	2021
	RMB'000	RMB'000	**RMB'000**	RMB'000
Finance lease receivables comprise:				
Within one year	**264**	740	**261**	732
One to five years	**477**	523	**473**	519
	741	1,263	**734**	1,251
Less: Unearned finance income	**7**	12	**–**	–
Less: Provision for impairment	**480**	485	**480**	485
Present value of minimum lease payment receivables	**254**	766	**254**	766
Analysed into:				
Current			**254**	726
Non-current			**–**	40
			254	766

Notes to Financial Statements

31 December 2022

15. FINANCE LEASE RECEIVABLES *(continued)*

The movement of the provision for impairment of finance lease receivables is as follows:

	2022 **RMB'000**	2021 RMB'000
At 1 January	**485**	521
Impairment losses reversed *(note 7)*	**(5)**	(36)
At 31 December	**480**	485

The effective interest rates of the above finance leases range from 6% to 9.5% (2021: 6% to 9.5%) per annum.

Finance lease receivables are secured over the leased construction machinery. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessees.

As 31 December 2022, the Group's refundable finance lease deposits are as follows:

	2022 **RMB'000**	2021 RMB'000
Current *(note 26)*	**6,272**	7,659
Non-current	**35**	37
	6,307	7,696

The finance lease deposits are non-interest-bearing and are settled on terms according to the lease agreements.

Notes to Financial Statements

31 December 2022

16. LONG-TERM RECEIVABLES

Long-term receivables are the receivables due after one year according to the credit terms, and include the following item:

	2022 RMB'000	2021 RMB'000
Trade receivables *(note 18)*	**160,908**	478,057

The long-term trade receivables bear interest at approximately 3% to 8% per annum.

17. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**1,121,894**	1,233,721
Work in progress	**187,313**	141,132
Finished goods	**2,282,066**	2,686,225
	3,591,273	4,061,078

18. TRADE AND BILLS RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	**3,054,426**	4,128,161
Impairment	**(440,204)**	(394,793)
	2,614,222	3,733,368
Less: Non-current portion *(note 16)*	**(160,908)**	(478,057)
	2,453,314	3,255,311

Notes to Financial Statements

31 December 2022

18. TRADE AND BILLS RECEIVABLES *(continued)*

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 six to twelve months, extending up to eighteen to twenty-four months for some customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables due within one year are non-interest-bearing.

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	2021
	RMB'000	RMB'000
Within 3 months	**1,011,246**	1,450,788
3 to 6 months	**427,940**	600,122
6 months to 1 year	**510,709**	1,049,972
More than 1 year	**664,327**	632,486
	2,614,222	3,733,368

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

	2022	2021
	RMB'000	RMB'000
At beginning of year	**394,793**	399,178
Impairment losses, net *(note 7)*	**45,907**	(3,627)
Written off as uncollectible	**(496)**	(758)
At end of year	**440,204**	394,793

Notes to Financial Statements

31 December 2022

18. TRADE AND BILLS RECEIVABLES *(continued)*

An impairment analysis is performed at each reporting date. The Group identifies the receivables that are credit-impaired (but that are not purchased or originated credit-impaired) among the receivables, considering the observable information, such as the debtors being in major financial difficulties, in breach of the contract stipulations or in bankruptcy. The ECLs are based on all the cash flows that the Group expects to receive, discounted at an effective interest rate. As at 31 December 2022, the Group has accrued ECLs of RMB418,246,000 for credit impaired trade receivables with a gross carrying amount of RMB759,749,000.

The Group uses a provision matrix to measure expected credit losses for the remaining receivables. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating). 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. Generally, trade receivables are written off that are unlikely to be collected.

Notes to Financial Statements

31 December 2022

18. TRADE AND BILLS RECEIVABLES *(continued)*

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

As at 31 December 2022		**Past due**				
	Current	**Less than 6 months**	**6 to 12 months**	**1 to 2 years**	**Over 2 years**	**Total**
Expected credit loss rate	**0.63%**	**0.80%**	**5.56%**	**16.24%**	**31.82%**	**0.96%**
Gross carrying amount (RMB'000)	**1,548,580**	**680,724**	**35,576**	**29,731**	**66**	**2,294,677**
Expected credit losses (RMB'000)	**9,682**	**5,451**	**1,977**	**4,827**	**21**	**21,958**

As at 31 December 2021		Past due				
	Current	Less than 6 months	6 to 12 months	1 to 2 years	Over 2 years	Total
Expected credit loss rate	0.21%	0.45%	3.30%	10.52%	22.43%	0.51%
Gross carrying amount (RMB'000)	2,697,743	761,406	146,540	43,348	526	3,649,563
Expected credit losses (RMB'000)	5,586	3,455	4,838	4,559	118	18,556

Notes to Financial Statements

31 December 2022

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 RMB'000	2021 RMB'000
Prepayments	**357,490**	508,851
Deductible value-added tax	**15,517**	31,777
Deposits	**2,382**	2,313
Total	**375,389**	542,941
Other receivables:		
Loan receivables	**445,177**	449,835
Less: impairment	**(419,045)**	(414,314)
Net loan receivables	**26,132**	35,521
Other miscellaneous receivables	**130,827**	66,201
Less: impairment	**(698)**	(698)
Net other miscellaneous receivables	**130,129**	65,503
Total other receivables	**156,261**	101,024
Grand total	**531,650**	643,965

Notes to Financial Statements

31 December 2022

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

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

	2022	2021
	RMB'000	RMB'000
At 1 January	**415,012**	406,474
Impairment losses recognised *(note 7)*	**4,731**	8,538
At 31 December	**419,743**	415,012

The carrying amounts of financial assets included in prepayments, deposits and other receivables approximate to their fair values.

None of the deposits with suppliers is either past due or impaired, for which there was no recent history of default.

A large portion of other receivables represent the loans to sales agencies for their repurchase of machines. The collection of receivables of sales financed by leasing went worse due to the deterioration of the external operating environment. According to the finance lease agreements, the sales agencies were required to fulfil the obligation to repurchase the machines and pay the outstanding lease amount back to the lease companies once there is a balance overdue for more than three months. The Group provided loans to the sales agencies for the settlement of repurchase. The sales agencies were required to pay off within three months as it normally takes three months to resell the machines. The Group would enter into instalment contracts with the sales agencies if the repurchased machines had been sold again. The instalments would be arranged at interest rates ranging from 3% to 8% per annum and mainly repaid within 18 to 24 months. Other receivables also include miscellaneous borrowings for sales agencies' daily operation needs.

The Group has considered the financial assets described above credit-impaired (but not purchased or originated credit-impaired), for which the loss allowance is measured at an amount equal to lifetime ECLs. An impairment analysis is performed at each reporting date by considering the probability of default, the ageing, existence of disputes, likelihood of collection, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Notes to Financial Statements

31 December 2022

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

An ageing analysis of the loan receivables as at the end of the reporting period, based on the transaction date and net of provisions, is as follows:

	2022 RMB'000	2021 RMB'000
More than 1 year	**26,132**	35,521

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Bills receivable, at fair value	**161,289**	201,951

The Group has classified bills receivable that are held both to collect cash flows and to sell as financial assets at fair value through other comprehensive income under HKFRS 9.

21. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Equity investments designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**1,000**	1,450

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

Notes to Financial Statements

31 December 2022

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 RMB'000	2021 RMB'000
Listed equity investments, at fair value	**220,803**	216,198
Unlisted equity investments, at fair value	**1,911,383**	2,269,989
	2,132,186	2,486,187
Less: Non-current portion	**(618,437)**	(640,370)
	1,513,749	1,845,817

The above listed equity investments were classified as financial assets at fair value through profit or loss as they were held for trading.

The above unlisted equity investments were wealth management products issued by financial institutions in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

23. DERIVATIVE FINANCIAL INSTRUMENTS

	2022 RMB'000	2021 RMB'000
Interest rate swaps	**40,548**	–

Interest rate swaps were not designated for hedging purposes and were measured at fair value through profit or loss. Fair value gain on non-hedging interest rate swaps was RMB40,548,000 (2021: nil).

Notes to Financial Statements

31 December 2022

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2022	2021
	RMB'000	RMB'000
Cash and bank balances	**2,031,973**	2,020,005
Time deposits	**1,656,255**	789,234
	3,688,228	2,809,239
Less: Pledged cash and bank balances and time deposits:		
Pledged for bank loans *(note 27)*	**(400,100)**	(356,000)
Pledged for bank acceptance bills *(note 25)*	**(418,201)**	(417,952)
Pledged for purchasing financial assets at fair value through profit or loss in 2023	**(800,000)**	–
Pledged for others	**(37,954)**	(10,282)
Cash and cash equivalents	**2,031,973**	2,025,005

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods from one day to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

Notes to Financial Statements

31 December 2022

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS *(continued)*

The Group's pledged bank deposits and certain cash and bank balances that are denominated in currencies other than the functional currencies of the respective group entities are as follows:

Original currency	US$ equivalent to RMB'000	HK$ equivalent to RMB'000
As at 31 December 2022	**1,539**	**43,424**
As at 31 December 2021	924	46,419

25. TRADE AND BILLS PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	**1,308,433**	1,255,679
Bills payable	**2,485,033**	3,046,016
	3,793,466	4,301,695

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

	2022 RMB'000	2021 RMB'000
Within 6 months	**3,717,267**	4,201,132
6 months to 1 year	**24,377**	45,450
1 to 2 years	**12,437**	19,707
2 to 3 years	**11,051**	10,183
Over 3 years	**28,334**	25,223
	3,793,466	4,301,695

Notes to Financial Statements

31 December 2022

25. TRADE AND BILLS PAYABLES *(continued)*

Bills payable were aged within 12 months at the end of the reporting period, and were secured by pledged bank deposits amounting to RMB418,201,000 (2021: RMB417,952,000) (note 24).

The trade and bills payables are non-interest-bearing.

26. OTHER PAYABLES AND ACCRUALS

	2022	2021
	RMB'000	RMB'000
Accrued sales rebate	**303,123**	609,493
Salaries and wages payable	**162,950**	133,439
Contract liabilities	**82,724**	92,792
Other payables	**103,334**	90,079
Other accrued expenses	**76,113**	48,515
Investment management fee	**41,764**	33,662
Payable for acquisition of property, plant and equipment	**76,786**	30,697
Other taxes payable	**11,446**	14,045
Deposit for finance leases *(note 15)*	**6,272**	7,659
	864,512	1,060,381

Other payables are non-interest-bearing and have different credit terms within one year.

Contract liabilities include short-term advances received to deliver industrial products. The revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period amounted to RMB92,792,000. The contract liabilities as of 31 December 2022 are expected to be recognised as revenue within one year.

Notes to Financial Statements

31 December 2022

27. INTEREST-BEARING BANK BORROWINGS

	2022			2021		
	Effective annual interest rate (%)	**Maturity**	**RMB'000**	Effective annual interest rate (%)	Maturity	RMB'000
Non-current						
Bank loans – secured	**1.05-5.22**	**2024**	**708,161**	1.03-1.35	2024	648,281

	2022 RMB'000	2021 RMB'000
Analysed into:		
More than 1 year	**708,161**	648,281

The Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are as follows:

Original currency	**US$** equivalent to RMB'000
As at 31 December 2022	**708,161**
As at 31 December 2021	648,281

Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB400,100,000 (2021: RMB356,000,000) (note 24).

Notes to Financial Statements

31 December 2022

28. DISPOSAL OF A SUBSIDIARY

On 21 January 2021, the Group entered into a sale and purchase agreement with an independent third party to dispose of the 100% equity interests in Henan Lonking Machinery Co., Ltd. for a cash consideration of RMB745,000,000.

	31 December 2021 RMB'000
Net assets disposed of:	
Property, plant and equipment	23,883
Right-of-use assets	29,305
Inventories	166
Prepayments, deposits and other receivables	2,215
Cash and cash equivalents	476,543
Other payables and accruals	(642)
	531,470
Gain on disposal of a subsidiary *(note 5)*	213,530
	745,000
Satisfied by:	
Cash	745,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	31 December 2021 RMB'000
Cash consideration	745,000
Cash and bank balances disposed of	(476,543)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	268,457

Notes to Financial Statements

31 December 2022

29. PROVISIONS

	2022	2021
	RMB'000	RMB'000
At 1 January 2022	**162,270**	165,321
Additional provision *(note 7)*	**132,317**	227,150
Amounts utilised during the year	**(177,104)**	(230,201)
At 31 December 2022	**117,483**	162,270
Analysis of total provisions		
Current	**111,564**	151,195
Non-current	**5,919**	11,075
	117,483	162,270

The Group provides an 18-month warranty for excavators and a 12-month warranty for wheel loaders (the warranty period of four major parts is extended from 12-month to 24-month from 2021), road rollers and forklifts for general repairs of defects occurring during the warranty period. The amount of the provision for the warranties is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Notes to Financial Statements

31 December 2022

30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets:

	Allowance for bad and doubtful debts and inventories RMB'000	Provision for product warranties RMB'000	Unrealised profit in inventories RMB'000	Accrued sales rebate and others RMB'000	Tax losses RMB'000	Deferred income RMB'000	Change in fair value of financial assets at fair value through other comprehensive income RMB'000	Change in fair value of financial assets at fair value through profit or loss RMB'000	Total RMB'000
At 1 January 2021	152,186	35,401	108,239	158,615	9,181	2,064	493	–	466,179
(Charged)/credited to the statement of profit or loss for the year *(note 10)*	1,007	(881)	(37,942)	3,535	6,285	477	(493)	–	(28,012)
At 31 December 2021	153,193	34,520	70,297	162,150	15,466	2,541	–	–	438,167
(Charged)/credited to the statement of profit or loss for the year *(note 10)*	**9,914**	**(9,866)**	**(1,646)**	**(74,770)**	**(12,040)**	**1,209**	**–**	**31,057**	**(56,142)**
At 31 December 2022	**163,107**	**24,654**	**68,651**	**87,380**	**3,426**	**3,750**	**–**	**31,057**	**382,025**

Notes to Financial Statements

31 December 2022

30. DEFERRED TAX *(continued)*

Deferred tax liabilities:

	Withholding taxes on undistributed dividends RMB'000	Accrued interest income RMB'000	Change in fair value of financial assets at fair value through profit or loss RMB'000	Change in fair value of derivative financial instruments RMB'000	Total RMB'000
At 1 January 2021	49,547	12,013	21,987	–	83,547
Charged/(credited) to the statement of profit or loss for the year *(note 10)*	(6,496)	(10,681)	20,941	–	3,764
At 31 December 2021	43,051	1,332	42,928	–	87,311
Charged/(credited) to the statement of profit or loss for the year *(note 10)*	**(28,123)**	**1,942**	**(22,042)**	**6,082**	**(42,141)**
At 31 December 2022	**14,928**	**3,274**	**20,886**	**6,082**	**45,170**

Notes to Financial Statements

31 December 2022

30. DEFERRED TAX *(continued)*

For presentation purposes, certain deferred tax assets and liabilities amounting to RMB6,216,000 have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2022 **RMB'000**	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**375,809**	414,433
Net deferred tax liabilities recognised in the consolidated statement of financial position	**38,954**	63,577

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. At the end of the reporting period, certain subsidiaries of the Group had RMB160,474,000 unused tax losses arising in Mainland China (2021: nil) that will expire in one to ten years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008 based on the distribution rate announced by the board resolution. At the end of the reporting period, certain subsidiaries of the Group had undistributed profits arising in Mainland China of RMB5,681,564,000(2021: RMB5,119,104,000) that have not been recognised as deferred tax liabilities.

Notes to Financial Statements

31 December 2022

31. DEFERRED INCOME

Deferred income represents government grants received related to assets whose useful lives are 5 to 10 years.

	2022	2021
	RMB'000	RMB'000
Special government grants for promoting technological improvements	**25,805**	18,139

The movements in government grants during the year are as follows:

	2022	2021
	RMB'000	RMB'000
At 1 January	**18,139**	15,356
New additions	**11,533**	6,060
Recognised as income during the year	**(3,867)**	(3,277)
At 31 December	**25,805**	18,139

	2022	2021
	RMB'000	RMB'000
Analysis of total deferred income:		
Current	**4,100**	2,859
Non-current	**21,705**	15,280
	25,805	18,139

Notes to Financial Statements

31 December 2022

32. ISSUED CAPITAL

Shares

	2022 **RMB'000**	2021 RMB'000
Authorised:		
20,000,000,000 ordinary shares of HK$0.1 each	**2,000,000**	2,000,000

	2022 **RMB'000**	2021 RMB'000
Issued and fully paid:		
4,280,100,000 ordinary shares of HK$0.1 each	**444,116**	444,116

33. SPECIAL RESERVE AND NON-DISTRIBUTABLE RESERVE

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 71 of the financial statements.

The share premium of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to a group reorganisation in 2004.

The movement of the special reserve represents the safety fund amounting to RMB8,985,000 appropriated from the profit after taxation of the subsidiaries established in Mainland China.

The non-distributable reserve of the Group represents the statutory reserve which comprises statutory reserve funds and surplus reserve funds appropriated from the profit after taxation of the subsidiaries established in Mainland China in accordance with the PRC laws and regulations.

Notes to Financial Statements

31 December 2022

34. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities and assets arising from financing activities

Year ended 31 December 2022

	Bank loans RMB'000	Pledged bank deposits RMB'000
At 1 January 2022	**648,281**	**784,234**
Changes from financing cash flows	**–**	**72,021**
Foreign exchange movement	**59,880**	**–**
At 31 December 2022	**708,161**	**856,255**

Year ended 31 December 2021

	Bank loans RMB'000	Pledged bank deposits RMB'000
At 1 January 2021	663,452	837,547
Changes from financing cash flows	–	(53,313)
Foreign exchange movement	(15,171)	–
At 31 December 2021	648,281	784,234

35. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans and bills payable are included in notes 24, respectively, to the financial statements.

Notes to Financial Statements

31 December 2022

36. COMMITMENTS

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

	2022 **RMB'000**	2021 RMB'000
Contracted, but not provided for:		
Plant and machinery	**56,822**	258,507

37. RELATED PARTY TRANSACTIONS

(a) The following table sets out the total amounts of transactions which have been entered into with related parties during the years ended 31 December 2022 and 31 December 2021 as well as balances with related parties as 31 December 2022 and 31 December 2021:

		Sales to related parties RMB'000 *(i)*	**Purchase from related parties** RMB'000 *(ii)*	**Amounts due from related parties** RMB'000	**Amounts due to related parties** RMB'000
Related parties:					
Longyan City Jinlong Machinery	2022	–	53,803	–	6,275
Company Limited *(note a)*	2021	–	63,538	–	9,207
Herkules (Shanghai) Automation	2022	–	23,786	1,888	3,858
Equipment Co., Ltd. *(note b)*	2021	–	47,199	5,801	7,223
Shanghai Refined Machinery	2022	5	–	244	56
Co., Ltd. *(note c)*	2021	–	–	239	56
Shanghai Longtui Environmental	2022	2	396	2	396
Technology Co., Ltd. *(note c)*	2021	–	422	–	241

Notes to Financial Statements

31 December 2022

37. RELATED PARTY TRANSACTIONS *(continued)*

(a) The following table sets out the total amounts of transactions which have been entered into with related parties during the years ended 31 December 2022 and 31 December 2021 as well as balances with related parties as 31 December 2022 and 31 December 2021: *(continued)*

Notes:

note a: Mr. Ngai Ngan Gin, the brother of Ms. Ngai Ngan Ying (a director of the Company), holds a controlling interest in this entity.

note b: Herkules (Shanghai) Automation Equipment Co., Ltd., a company established in the PRC with limited liability, is wholly owned by Mr. Chen Jie, the son-in-law of Mr. Li San Yim, an executive director and the chairman of the Company. The Group prepaid RMB1,888,000 for the purchases of equipment from Herkules (Shanghai) Automation Equipment Co. Ltd. as 31 December 2022.

note c: Shanghai Refined Machinery Co., Ltd. is wholly-owned by Refined Holdings, which is wholly owned by Mr. Li Bin, the son of Mr. Li San Yim.

Shanghai Longtui Machinery Environmental Technology Co., Ltd. (formerly named as Shanghai Longtui Machinery Co., Ltd.) is wholly-owned by Mr. Li Jun, the son of Mr. Li San Yim.

(i) The sales to the related parties were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases from the related parties were made according to the published prices and conditions offered by the associates to their major customers.

All the amounts are unsecured, non-interest-bearing and repayable on demand or based on the agreed credit terms of approximately 90 days.

Notes to Financial Statements

31 December 2022

37. RELATED PARTY TRANSACTIONS *(continued)*

(b) Compensation of key management personnel of the Group:

	2022	2021
	RMB'000	RMB'000
Short-term employee benefits	**13,329**	14,939
Pension scheme contributions	**172**	165
Total compensation paid to key management personnel	**13,501**	15,104

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

38. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are derecognised in their entirety

As at 31 December 2022, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Derecognised Bills") to certain suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB3,504,631,000 (2021: RMB4,067,353,000). The Derecognised Bills had a maturity of one to twelve months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are insignificant.

During 2022, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout 2022.

Notes to Financial Statements

31 December 2022

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

2022

Financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value through other comprehensive income			
	Designated as such upon initial recognition RMB'000	Mandatorily designated as such RMB'000	Equity instruments RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	–	–	–	2,453,314	2,453,314
Financial assets at fair value through other comprehensive income	–	–	–	161,289	–	161,289
Long-term receivables	–	–	–	–	160,908	160,908
Due from related parties	–	–	–	–	2,134	2,134
Financial assets included in prepayments, other receivables and other assets	–	–	–	–	158,043	158,043
Finance lease receivables	–	–	–	–	254	254
Financial assets at fair value through profit or loss	–	2,132,186	–	–	–	2,132,186
Derivative financial instruments	40,548	–	–	–	–	40,548
Equity investments at fair value through other comprehensive income	–	–	1,000	–	–	1,000
Pledged deposits	–	–	–	–	1,656,255	1,656,255
Cash and cash equivalents	–	–	–	–	2,031,973	2,031,973
	40,548	2,132,186	1,000	161,289	6,462,881	8,797,904

Notes to Financial Statements

31 December 2022

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2022 *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	3,793,466
Financial liabilities included in other payables and accruals	221,884
Deposit for finance leases *(note 15)*	6,307
Interest-bearing bank borrowings	708,161
Due to related parties	10,585
	4,740,403

Notes to Financial Statements

31 December 2022

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2021

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income			
	Mandatorily designated as such RMB'000	Equity instruments RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	–	–	3,255,311	3,255,311
Financial assets at fair value through other comprehensive income	–	–	201,951	–	201,951
Long-term receivables	–	–	–	478,057	478,057
Due from related parties	–	–	–	6,040	6,040
Financial assets included in prepayments, other receivables and other assets	–	–	–	59,757	59,757
Finance lease receivables	–	–	–	766	766
Financial assets at fair value through profit or loss	2,486,187	–	–	–	2,486,187
Equity investments at fair value through other comprehensive income	–	1,450	–	–	1,450
Pledged deposits	–	–	–	784,234	784,234
Cash and cash equivalents	–	–	–	2,025,005	2,025,005
	2,486,187	1,450	201,951	6,609,170	9,298,758

Notes to Financial Statements

31 December 2022

39. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2021 *(continued)*

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	4,301,695
Financial liabilities included in other payables and accruals	154,438
Deposit for finance leases *(note 15)*	7,696
Interest-bearing bank borrowings	648,281
Due to related parties	16,727
	5,128,837

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, trade receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables, interest-bearing bank borrowings, financial liabilities included in other payables and accruals, deposits for finance lease and amounts due from/to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments. The fair values of long-term receivables and the non-current portion of financial lease receivables carried at amortised cost are based on current interest rates offered for similar financial instruments appropriate for the remaining term to maturity. The carrying amounts of such financial instruments are not materially different from their fair values.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

Notes to Financial Statements

31 December 2022

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

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

The following methods and assumptions were used to estimate the fair values:

The fair values of the long-term receivables and non-current portion of finance lease receivables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as 31 December 2022 were assessed to be insignificant. The fair values of the non-current portion of deposits for finance leases were assessed and approximated to their carrying amounts.

The fair values of listed equity investments are based on quoted market prices.

The Group invests in unlisted investments, which represent wealth management products issued by financial institutions in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Bills receivable held both to collect cash flows and to sell in financial assets at fair value through other comprehensive income are measured using the discounted cash flow method.

The Group enters into derivative financial instrument (interest rate swaps) with a bank. Interest rate swaps are measured using valuation techniques similar to swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties and interest rate curves.

Notes to Financial Statements

31 December 2022

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

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through other comprehensive income	–	161,289	–	161,289
Equity investments designated at fair value through other comprehensive income	–	–	1,000	1,000
Financial assets at fair value through profit or loss	220,803	1,911,383	–	2,132,186
Derivative financial instruments	–	40,548	–	40,548
	220,803	2,113,220	1,000	2,335,023

Notes to Financial Statements

31 December 2022

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

Fair value hierarchy *(continued)*

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

Assets measured at fair value: *(continued)*

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through other comprehensive income	–	201,951	–	201,951
Equity investments designated at fair value through other comprehensive income	–	–	1,450	1,450
Financial assets at fair value through profit or loss	216,198	2,269,989	–	2,486,187
	216,198	2,471,940	1,450	2,689,588

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

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also enters into a derivative transaction, which are interest rate swaps. The purpose is to manage the interest rate arising from the Group's sources of finance.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group has entered into interest rate swaps agreement with a bank, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. 31 December 2022, after taking into account the effect of the interest rate swaps, the Group's interest-bearing borrowings bore interest at fixed rates.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales by operating units in currencies other than the units' functional currencies. Approximately 23% (2021: 11%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, with 100% (2021: 100%) of the costs denominated in the units' functional currencies.

In addition, the Group has currency exposures from its interest-bearing bank borrowings.

Notes to Financial Statements

31 December 2022

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

Foreign currency risk *(continued)*

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in foreign currencies at the end of the reporting period are as follows:

	Assets		Liabilities	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
US$	**260,205**	171,837	**708,161**	648,281
HK$	**43,424**	46,419	**–**	–
JPY$	**–**	–	**2,837**	–

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities):

	Change in foreign currency rate	**Increase/ (decrease) in profit before tax RMB'000**
2022		
If RMB weakens against US$	**10%**	**(44,796)**
If RMB strengthens against US$	**10%**	**44,796**
If RMB weakens against HK$	**10%**	**4,342**
If RMB strengthens against HK$	**10%**	**(4,342)**
If RMB weakens against JPY$	**10%**	**(283)**
If RMB strengthens against JPY$	**10%**	**283**

Notes to Financial Statements

31 December 2022

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

Foreign currency risk *(continued)*

	Change in foreign currency rate	Increase/ (decrease) in profit before tax RMB'000
2021		
If RMB weakens against US$	10%	(47,644)
If RMB strengthens against US$	10%	47,644
If RMB weakens against HK$	10%	4,642
If RMB strengthens against HK$	10%	(4,642)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Maximum exposure and year-end staging

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

The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

Notes to Financial Statements

31 December 2022

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

Credit risk *(continued)*

Maximum exposure and year-end staging (continued)

As 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables	–	–	–	3,054,426	3,054,426
Financial assets included in prepayments, other receivables and other assets					
– Normal	132,609	–	–	–	132,609
– Doubtful	–	–	445,177	–	445,177
Pledged deposits					
– Not yet past due	1,656,255	–	–	–	1,656,255
Cash and cash equivalents					
– Not yet past due	2,031,973	–	–	–	2,031,973
Due from related parties	2,134	–	–	–	2,134
Finance lease receivables	734	–	–	–	734
	3,823,705	–	445,177	3,054,426	7,323,308

Notes to Financial Statements

31 December 2022

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

Credit risk *(continued)*

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	–	–	–	4,128,161	4,128,161
Financial assets included in prepayments, other receivables and other assets					
– Normal	24,934	–	–	–	24,934
– Doubtful	–	–	449,835	–	449,835
Pledged deposits					
– Not yet past due	784,234	–	–	–	784,234
Cash and cash equivalents					
– Not yet past due	2,025,005	–	–	–	2,025,005
Due from related parties	6,040	–	–	–	6,040
Finance lease receivables	1,251	–	–	–	1,251
	2,841,464	–	449,835	4,128,161	7,419,460

Notes to Financial Statements

31 December 2022

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

Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

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

2022

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	9,249	27,747	723,165	760,161
Trade and bills payables	1,605,585	1,668,903	518,978	–	3,793,466
Other payables and accruals	180,120	–	41,764	–	221,884
Due to related parties	10,585	–	–	–	10,585
Deposits for finance leases	6,272	–	–	35	6,307
	1,802,562	1,678,152	588,489	723,200	4,792,403

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

Liquidity risk *(continued)*

2021

	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	1,704	5,112	657,956	664,772
Trade and bills payables	102,527	33,041	4,166,127	–	4,301,695
Other payables and accruals	120,776	–	33,662	–	154,438
Due to related parties	16,727	–	–	–	16,727
Deposits for finance leases	7,696	–	–	–	7,696
	247,726	34,745	4,204,901	657,956	5,145,328

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments included in financial assets at fair value through profit or loss (note 22) as 31 December 2022. The Group's listed investments are listed on the Shenzhen and Shanghai stock exchanges and are valued at quoted market prices at the end of the reporting period.

	31 December 2022	**High/low 2022**	31 December 2021	High/low 2021
Shenzhen – A Share Index	**11,016**	**14,941** **10,088**	14,857	16,293/ 9,962
Shanghai – A Share Index	**3,089**	**3,652** **2,864**	3,643	3,732/ 2,750

Notes to Financial Statements

31 December 2022

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

Equity price risk *(continued)*

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments RMB'000	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2022			
Investments listed in:			
Shenzhen – Equity investments at fair value through profit or loss	**110,955**	**11,096/**	**–**
		(11,096)	**–**
Shanghai – Equity investments at fair value through profit or loss	**109,848**	**10,985/**	**–**
		(10,985)	**–**
Unlisted investments at fair value:			
– Financial assets at fair value through profit or loss	**1,911,383**	**191,138/**	**–**
		(191,138)	**–**
– Equity investments at fair value through other comprehensive income	**1,000**	**–**	**100/**
		–	**(100)**

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

Equity price risk *(continued)*

	Carrying amount of equity investments RMB'000	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2021			
Investments listed in:			
Shenzhen – Equity investments at fair value through profit or loss	104,483	10,448/	–
		(10,448)	–
Shanghai – Equity investments at fair value through profit or loss	111,715	11,172/	–
		(11,172)	–
Unlisted investments at fair value:			
– Financial assets at fair value through profit or loss	2,269,989	226,999/	–
		(226,999)	–
– Equity investments at fair value through other comprehensive income	1,450	–	145/
		–	(145)

Capital management

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

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

Notes to Financial Statements

31 December 2022

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

Capital management *(continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. The Group's policy is to maintain the gearing ratio between 20% and 70%. Net debt includes interest-bearing bank borrowings, trade, bills and other payables, accruals, amounts due to related parties, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000
Interest-bearing bank borrowings	**708,161**	648,281
Trade and bills payables	**3,793,466**	4,301,695
Other payables and accruals	**864,512**	1,060,381
Due to related parties	**10,585**	16,727
Less: Cash and cash equivalents	**(2,031,973)**	(2,025,005)
Net debt	**3,344,751**	4,002,079
Equity attributable to owners of the parent	**9,748,745**	10,202,265
Capital and net debt	**13,093,496**	14,204,344
Gearing ratio	**26%**	28%

Notes to Financial Statements

31 December 2022

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2022 RMB'000	2021 RMB'000
Non-current assets		
Property, plant and equipment	**17,271**	15,808
Investment in subsidiaries	**111,476**	102,033
Total non-current assets	**128,747**	117,841
Current assets		
Due from subsidiaries	**3,073,402**	2,813,027
Other receivables	**698**	639
Cash and cash equivalents	**43,106**	46,919
Total current assets	**3,117,206**	2,860,585
Current liabilities		
Other payables	**4,370**	678
Total current liabilities	**4,370**	678
Net current assets	**3,112,836**	2,859,907
Total assets less current liabilities	**3,241,583**	2,977,748
Non-current liabilities		
Interest-bearing bank borrowings	**708,161**	648,281
Total non-current liabilities	**708,161**	648,281
Net assets	**2,533,422**	2,329,467

Notes to Financial Statements

31 December 2022

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

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

	2022	2021
	RMB'000	RMB'000
Equity		
Equity attributable to owners of the parent		
Issued capital	**444,116**	444,116
Share premium and reserves	**2,089,306**	1,885,351
Total equity	**2,533,422**	2,329,467

Li San Yim
DIRECTOR

Yin Kun Lun
DIRECTOR

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

Note:

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

	Share premium account	Retained profits	Exchange fluctuation reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2021	982,757	(5,325,058)	(18,855)	(4,361,156)
Final 2020 dividend declared	–	(1,186,910)	–	(1,186,910)
Total comprehensive loss for the year	–	7,391,343	42,074	7,433,417
At 31 December 2021 and 1 January 2022	**982,757**	**879,375**	**23,219**	**1,885,351**
Final 2021 dividend declared	**–**	**(765,435)**	**–**	**(765,435)**
Total comprehensive income for the year	**–**	**794,315**	**175,075**	**969,390**
At 31 December 2022	**982,757**	**908,255**	**198,294**	**2,089,306**

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2023.

Summary of Financial Information

A summary of the results, assets and liabilities of the Group for the last five financial years is as follows:

	For the year ended 31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	**2022** **RMB'000**
Result					
Profit before taxation	1,319,223	1,965,368	2,307,632	1,452,913	**438,924**
Income tax credit (expense)	(175,260)	(321,429)	(347,883)	(177,487)	**(38,584)**
Profit for the year	1,143,963	1,643,939	1,959,749	1,275,426	**400,340**
Attributable to:					
Equity holder of the parent	1,143,867	1,643,405	1,959,235	1,275,383	**400,454**
Non-controlling interests	96	534	514	43	**(114)**
	1,143,963	1,643,939	1,959,749	1,275,426	**400,340**
Dividends	731,212	975,510	1,186,910	765,435	**374,851**
Earnings per share-basic (RMB)	0.27	0.38	0.46	0.30	**0.09**

	As at 31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	**2022** **RMB'000**
Assets and Liabilities					
Total assets	14,072,347	14,617,703	17,274,236	16,602,217	**15,390,930**
Total liabilities	5,865,164	5,540,738	7,179,961	6,397,428	**5,639,775**
	8,207,183	9,076,965	10,094,275	10,204,789	**9,751,155**
Equity attributable to equity holders of the parent	8,204,643	9,074,446	10,091,794	10,202,265	**9,748,745**
Non-controlling interests	2,540	2,519	2,481	2,524	**2,410**
	8,207,183	9,076,965	10,094,275	10,204,789	**9,751,155**