



# Huajin International Holdings Limited 華津國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 2738



ANNUAL REPORT

**2022**

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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Xu Songqing (*Chairman*)  
Mr. Xu Jianhong (*Vice Chairman*)  
Mr. Luo Canwen (*Chief Executive Officer*)  
Mr. Xu Songman

#### Independent non-executive Directors

Mr. Goh Choo Hwee  
Mr. Ou Qiyuan  
Mr. Suen To Wai

### AUDIT COMMITTEE

Mr. Suen To Wai (*Chairman*)  
Mr. Goh Choo Hwee  
Mr. Ou Qiyuan

### REMUNERATION COMMITTEE

Mr. Suen To Wai (*Chairman*)  
Mr. Xu Songqing  
Mr. Goh Choo Hwee  
Mr. Ou Qiyuan

### NOMINATION COMMITTEE

Mr. Xu Songqing (*Chairman*)  
Mr. Goh Choo Hwee  
Mr. Ou Qiyuan  
Mr. Suen To Wai

### COMPANY SECRETARY

Mr. Wong Chak Keung

### PRINCIPAL BANKERS

Agricultural Bank of China Limited  
Jiangmen Xinhui Branch  
Jiangmen Rural Commercial Bank Company Limited  
Bank of Guangzhou Jiangmen Branch

### AUDITOR

Deloitte Touche Tohmatsu  
*Registered Public Interest Entity Auditors*

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited  
Suites 3301-04, 33/F.  
Two Chinachem Exchange Square  
338 King's Road, North Point  
Hong Kong

### REGISTERED OFFICE

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

### HEADQUARTER IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

Xinsha Industrial Zone of Muzhou Town  
Xinhui District, Jiangmen City  
Guangdong Province, PRC

### PRINCIPAL PLACE OF BUSINESS

Room 518, Tower A  
New Mandarin Plaza  
No. 14 Science Museum Road  
Tsim Sha Tsui East  
Kowloon, Hong Kong

### STOCK CODE

2738

### WEBSITE

[www.huajin-hk.com](http://www.huajin-hk.com)

## DEFINITIONS

In this report, unless otherwise indicated in the context, the following expressions have the meanings set out below:

“Abundant State”	Abundant State Ventures Limited (國溢創投有限公司), a limited liability company incorporated in BVI, and indirect wholly-owned subsidiary of the Company
“Articles of Association”	the amended and restated articles of association of the Company
“associates”	having the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors of the Company
“BVI”	the British Virgin Islands
“China” or “PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Company”	Huajin International Holdings Limited (華津國際控股有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“Controlling Shareholder(s)”	having the meaning ascribed thereto under the Listing Rules
“Deed of Non-competition”	the deed of non-competition dated 23 March 2016 and executed by our Controlling Shareholders in favour of the Company
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Haiyi”	Haiyi Limited (海逸有限公司), a business company incorporated under the laws of BVI with limited liability and our Controlling Shareholder, which is wholly-owned by Intrend Ventures
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hua Jin Holdings”	Hua Jin Holdings Pte. Ltd., a limited liability company incorporated in Singapore, which is wholly-owned by Mr. Xu
“Huajin Investments”	Huajin Investments Limited (華津投資有限公司), a limited liability company incorporated in BVI, the entire issued share capital of which is owned by the Company and is a direct wholly-owned subsidiary of the Company
“Independent Third Party(ies)”	individual(s) or company(ies) not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial Shareholder of the Company or any of its subsidiaries or any of their respective associates

## DEFINITIONS

“Inter Consortium”	Inter Consortium Holdings Limited (華滙控股有限公司), a limited liability company incorporated in Hong Kong, the entire issued shares of which is owned by Huajin Investments and is an indirect wholly-owned subsidiary of the Company
“Intrend Ventures”	Intrend Ventures Limited, a business company incorporated under the laws of BVI with limited liability and our Controlling Shareholder, which is wholly-owned by Mr. Xu
“Jiangmen Hairun”	江門市海潤再生資源回收有限公司(Jiangmen Hairun Renewable Resources Recycling Company Limited*), a limited liability company established under the laws of PRC and an indirect wholly-owned subsidiary of the Company
“Jiangmen Huajin”	江門市華津金屬製品有限公司(Jiangmen Huajin Metal Product Company Limited*), a limited liability company established under the laws of PRC and an indirect wholly-owned subsidiary of the Company
“Jiangmen Huajin Metal Trading”	江門市華津金屬交易市場有限公司(Jiangmen Huajin Metal Trading Market Company Limited*), a limited liability company established under the laws of PRC and an indirect wholly-owned subsidiary of the Company
“Jiangmen Huamu”	江門市華睦五金有限公司(Jiangmen Huamu Metals Company Limited*), a limited liability company established under the laws of PRC and an indirect wholly-owned subsidiary of the Company
“Jiangmen Huihan”	江門市匯涵精密五金製品有限公司(Jiangmen Huihan Precision Metal Products Company Limited*), a limited liability company established under the laws of PRC, which is indirectly owned as to 5% by the Company
“Jiangmen Huihao”	江門市匯浩精密五金製品有限公司(Jiangmen Huihao Precision Metal Products Company Limited*), a limited liability company established under the laws of PRC, which is indirectly owned as to 5% by the Company
“Jiangmen Huiyang”	江門市匯洋精密五金製品有限公司(Jiangmen Huiyang Precision Metal Products Company Limited*), a limited liability company established under the laws of PRC, which is indirectly owned as to 5% by the Company
“Jiangmen Jinhao Metal Material”	江門市津浩金屬材料有限公司(Jiangmen Jinhao Metal Material Company Limited*), a limited liability company established under the laws of PRC, and indirect wholly-owned subsidiary of the Company
“Jiangmen Jinhong Logistics”	江門市津鴻物流有限公司(Jiangmen Jinhong Logistics Limited*), a limited liability company established under the laws of PRC, and indirect wholly-owned subsidiary of the Company

## DEFINITIONS

“Jiangmen Jinrun Ecotechnology”	江門市津潤環保科技有限公司(Jiangmen Jinrun Ecotechnology Company Limited*)(formerly known as 江門市津潤金屬材料有限公司Jiangmen Jinrun Metal Material Company Limited*), a limited liability company established under the laws of PRC, and indirect wholly-owned subsidiary of the Company
“Jiangmen Jinyang Metal Material”	江門市津洋金屬材料有限公司 (Jiangmen Jinyang Metal Material Company Limited*), a limited liability company established under the laws of PRC, and indirect wholly-owned subsidiary of the Company
“Jovial Idea”	Jovial Idea Ventures Limited (樂意創投有限公司), a limited liability company incorporated in BVI, and indirect wholly-owned subsidiary of the Company
“Listing” or “Listing Date”	the listing of our Shares on the Stock Exchange commenced on 15 April 2016
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum”	the amended and restated memorandum of association of the Company
“Mr. Luo”	Mr. Luo Canwen (羅燦文), the executive Director
“Mr. Xu”	Mr. Xu Songqing (許松慶), the executive Director and Controlling Shareholder
“Oriental Surplus Link”	Oriental Surplus Link Limited (東方溢進有限公司), a limited liability company incorporated in Hong Kong, which is wholly-owned by Mr. Xu
“Prospectus”	the prospectus of the Company dated 5 April 2016
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sino Beauty”	Sino Beauty Group Limited (漢麗集團有限公司), a limited liability company incorporated in BVI, and indirect wholly-owned subsidiary of the Company
“substantial Shareholder(s)”	having the meaning ascribed thereto under the Listing Rules
“Zhong Cheng”	Zhong Cheng International Limited (中誠有限公司) (formerly known as China Reliance Limited (中誠有限公司)), a business company incorporated under the laws of BVI with limited liability, which is wholly-owned by Mr. Luo

## DEFINITIONS

“Vast Profit”	Vast Profit Enterprise Limited (浩利企業有限公司), a limited liability company incorporated in Hong Kong, and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“S\$”	Singapore dollars, the lawful currency of Singapore
“%”	per cent

\* for identification purpose only and should not be regarded as the official English translation of the Chinese names. In the event of any inconsistency, the Chinese name prevails.

## FINANCIAL HIGHLIGHTS

	2022	2021	Change
Revenue (RMB million)	<b>4,663.6</b>	5,293.0	-11.9%
Gross (loss) profit (RMB million)	<b>(20.1)</b>	208.8	n/a
Gross (loss) profit margin (%)	<b>-0.4%</b>	3.9%	n/a
(Loss) profit attributable to owners of the Company (RMB million)	<b>(165.3)</b>	62.0	n/a
Basic and diluted (loss) earnings per Shares (RMB cent)	<b>(27.55)</b>	10.34	n/a
Dividend per Shares (HK cent) — Special interim	<b>0.0</b>	0.098	n/a
Sales volume (tonnes) ( <i>note 1</i> )	<b>958,126</b>	867,445	10.5%
Average processing fee per tonne (RMB) ( <i>note 2</i> )	<b>336</b>	536	-37.3%
	As at 31.12.2022	As at 31.12.2021	Change
Net asset value (RMB million)	<b>425.3</b>	587.0	-27.5%
Net asset value per Share (RMB)	<b>0.71</b>	0.98	-27.6%
Borrowings (RMB million)	<b>1,516.1</b>	1,229.6	23.3%
Gearing ratio (%) ( <i>note 3</i> )	<b>356.5%</b>	209.5%	

## Notes:

1. It represents the sales volume of processed steel products and galvanized steel products during the reporting period.
2. The average processing fee is the difference between the average selling price and the average cost of direct materials charged for its processed steel products and galvanized steel products
3. Gearing ratio is calculated at borrowings divided by net asset value.



## CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present our annual results of Huajin International Holdings Limited and its subsidiaries for the year ended 31 December 2022 to our Shareholders.

### REVIEW

The year of 2022 continued to be a challenging and difficult year to the Group. Due to the changes in the economic environment related to the Covid-19 pandemic in Mainland China during the year of 2022, the Group was experiencing negative conditions including mainly decreased revenue and increased loss during the year under review.

During the year of 2022, the Group generated revenue of approximately RMB4,663.6 million, representing a decrease of RMB629.4 million or 11.9%, as compared to that of approximately RMB5,293.0 million during the year of 2021. Loss attributable to owners of the Company during the year of 2022 was approximately RMB165.3 million when compared with profit attributable to owners of the Company of approximately RMB62.0 million for the year of 2021.

The sales volume of processed steel products and galvanized steel products in aggregate was approximately 958,126 tonnes during the year of 2022, representing an increase of approximately 90,681 tonnes or 10.5%, as compared to that of approximately 867,445 tonnes during the year of 2021.

Even though there was an increase in the sales volume of processed steel products and galvanized steel products during the year of 2022, the net loss of the Group during the year of 2022 was mainly due to (i) the decrease in the revenue which were adversely affected by the downturn in market conditions; (ii) a decrease in the average processing fee (being the difference between the selling price and the cost of the raw materials) of the Group's processed steel products and galvanized steel products affected by the price fluctuation of hot-rolled steel coils from the suppliers; (iii) the increase in the unit cost of sales; (iv) the increase in administrative expenses; (v) the increase in finance costs; and (vi) partially offset by a deferred tax credit.

In order to maintain its business growth in the long run, the Group invested substantially in property, plant and equipment to strengthen the scale and processing capacity of the existing production base and facilities. In 2022, the Group acquired property, plant and equipment and incurred construction costs of approximately RMB181.3 million.

For corporate social responsibility, the Group is committed to striking a balance between earnings and sustainable development. We believe outstanding business environment, society and corporate governance are fundamental to maintaining long-term sustainable success. The Group encourages our staff to participate in community services with non-profit organizations, social enterprises and governments to benefit countries and communities where the Group operates.

### FUTURE PROSPECTS

Our cold-rolled and galvanized steel processing service business will continue to be the principal business providing a stable source of income to the Group. With our broad and diversified customer base, our management will also consider the possibilities to expand and diversify our business by investing into new business opportunities which can enhance the diversity of our revenue and shareholder value.

## CHAIRMAN'S STATEMENT

### PROPOSED DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022.

### APPRECIATION

To conclude, I would like to take this opportunity to express my heartfelt gratitude and appreciation to the Board for their support and contributions, to the devotion of our management team and staff over the past year. Last but not least, I would like to give my sincerest thanks to our Shareholders, business partners and customers for their unflagging support.

**Xu Songqing**

*Chairman*

Hong Kong, 31 March 2023

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

#### Executive directors

**Mr. Xu Songqing (許松慶)**, aged 52, is the chairman of the Company and was appointed as an executive Director of the Company on 13 March 2015. Mr. Xu is also the chairman of the nomination committee and a member of remuneration committee of the Company. As a founder of the Group, Mr. Xu is also a director and legal representative of certain subsidiaries of the Company. Mr. Xu founded Jiangmen Huajin in July 2005 and Jiangmen Huamu in November 2006, and served as a director of Jiangmen Huajin and Jiangmen Huamu. He has been primarily responsible for overall strategic planning and business development. Prior to joining the Group, Mr. Xu served as a general manager at Zhongshan Guzhen Luhao Street Light Factory\* (中山市古鎮路豪路燈廠) from December 2001 to July 2005, responsible for managing and supervising overall production of steel poles of street light. Mr. Xu served as a factory manager at Zhongshan Guzhen Henghua Lighting & Appliances Factory\* (中山市古鎮恒華電器燈飾廠) from October 1999 to December 2001, responsible for managing the workshop and familiarising with characteristics and manufacturing requirements of all kinds of lamp poles. Mr. Xu worked in lighting and transportation industry as a self-employed entrepreneur from 1991 to 1999. Mr. Xu is the elder brother of Mr. Xu Songman and the father of Mr. Xu Jianhong, both are the executive Directors of the Company.

**Mr. Xu Jianhong (許健鴻)**, aged 29, was appointed as a non-executive Director of the Company on 21 November 2017 and was re-designated from the non-executive Director to the executive Director of the Company on 1 May 2021. Mr. Xu Jianhong was also appointed as the vice chairman of the Company with effect from 24 February 2022. Mr. Xu Jianhong graduated from The Kilmore International School in Australia in 2014 and received his Bachelor of Science degree from The University of Melbourne, Australia in July 2018. Mr. Xu Jianhong is also a director of Inter Consortium, a director and the legal representative of Jiangmen Huajin Metal Trading, Jiangmen Jinrun Ecotechnology and Jiangmen Jinyang Metal Material, all of which are indirect wholly-owned subsidiaries of the Company. Mr. Xu Jianhong is the son of Mr. Xu, a controlling shareholder, an executive Director and the chairman of the Company, and the nephew of Mr. Xu Songman, an executive Director of the Company.

**Mr. Luo Canwen (羅燦文)**, aged 49, was appointed as an executive Director and chief executive officer of the Company on 18 December 2015. Mr. Luo joined the Group in May 2010 and currently serves as the raw material procurement director of Jiangmen Huajin and Jiangmen Huamu. Mr. Luo has been primarily responsible for the overall operation, management and raw material procurement of the Group. Mr. Luo is also a director of Inter Consortium and the supervisor of certain subsidiaries of the Company. Prior to joining the Group, Mr. Luo has over 12 years experience in the trading industry. Mr. Luo was the chief executive officer of Foshan Shunde Jinhong Trading Company Limited\* (佛山市順德區晉虹貿易有限公司) (formerly known as Foshan Shunde Qianghong Trading Company Limited\* (佛山順德區強虹貿易有限公司)) from May 2001 to April 2010. Mr. Luo also worked in the sales department in Foshan Dongying Trading Company Limited\* (佛山市東盈貿易有限公司) (formerly known as Foshan Dongsheng Zhilian Trading Company Limited\* (佛山市東升志聯貿易有限公司)) from May 1998 to April 2001.

**Mr. Xu Songman**, aged 46, was appointed as an executive Director of the Company on 18 December 2015. Mr. Xu Songman joined the Group in July 2005 and currently serves as the sales director of Jiangmen Huajin and Jiangmen Huamu. Mr. Xu Songman has been primarily responsible for the overall domestic and overseas marketing and logistics related services of the Group. Mr. Xu Songman is also a director of Inter Consortium. Prior to joining the Group, Mr. Xu Songman was involved in and managed his steel trading business in the Guangdong Province, the PRC, from 2002 to 2005. Mr. Xu Songman was engaged in the restaurant industry in the United Kingdom from 1997 to 2001. Mr. Xu Songman completed an EMBA course at Sun Yat-sen University (中山大學) located in Guangdong Province, the PRC in April 2014. Mr. Xu Songman is the younger brother of Mr. Xu and the uncle of Mr. Xu Jianhong.

## DIRECTORS AND SENIOR MANAGEMENT

### Independent non-executive Directors

**Mr. Goh Choo Hwee (吳慈飛)**, aged 51, was appointed as an independent non-executive Director of the Company on 23 March 2016. Mr. Goh is also a member of each of the audit, remuneration and nomination committees of the Company. Mr. Goh is a practising solicitor in Hong Kong and currently a consultant at Ma Tang & Co., a law firm in Hong Kong. Mr. Goh graduated from The University of Hong Kong with Postgraduate Certificate in Laws in June 1995.

Mr. Goh is currently an independent non-executive director of Tsui Wah Holdings Limited (stock code: 1314), a company listed on the Main Board of the Stock Exchange. Mr. Goh was also an independent non-executive director of China Ever Grand Financial Leasing Group Co., Ltd. (stock code: 379), a company listed on the Main Board of the Stock Exchange, from January 2012 to March 2022.

**Mr. Ou Qiyuan (區啓源)**, aged 47, was appointed as an independent non-executive Director of the Company on 1 October 2021. Mr. Ou graduated from South China University of Technology, specializing in business administration, in 2013. Mr. Ou has been serving as the managing director of 江門市國旅國際旅行社有限公司(Jiangmen International Travel Service Co., Ltd.\*) since May 2007. Mr. Ou is also the sole shareholder of this company. Mr. Ou has over 14 years of operations and management experience in tourism business and corporate development.

**Mr. Suen To Wai (孫多偉)**, aged 49, was appointed as an independent non-executive Director of the Company on 18 March 2023. Mr. Suen is also the chairman of audit committee and remuneration committee and a member of nomination committee of the Company. Mr. Suen received tertiary education both in Hong Kong and Australia. Mr. Suen obtained a bachelor's degree in commerce from The University of Western Australia in March 2001. Mr. Suen is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Suen has over 15 years of experience in finance and accounting. He also worked at an international audit firm from January 2001 to July 2013.

Mr. Suen is currently an independent non-executive director of MingZhu Logistics Holdings Limited, a company whose shares are listed on Nasdaq (stock code: YGMZ), since September 2020 and an independent non-executive director of Huisen Household International Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange (stock code: 2127), since December 2020.

Mr. Suen is an independent non-executive director of China Zenix Auto International Limited (a company whose American depositary shares were previously listed on the New York Stock Exchange under the stock code "ZX but were subsequently delisted in December 2018, and then were quoted on the over-the-counter markets under the stock code "ZXAIY" but were subsequently delisted in January 2022) since April 2018.

Mr. Suen is an independent non-executive director of Ping An Securities Group (Holdings) Limited ("Ping An Securities"), a company whose shares were previously listed on the Main Board of the Stock Exchange (stock code: 231) but were subsequently delisted in November 2022, since February 2020. Ping An Securities was incorporated in Bermuda with limited liability. According to the 2020 annual report of Ping An Securities, Ping An Securities and its subsidiaries mainly engaged in the business of provision of securities brokerage, securities underwriting and placements and financial advisory services, insurance brokerage service and property development.

Save as disclosed above, each of the Directors has confirmed that he did not have any relationships with any other Directors, senior management or substantial or Controlling Shareholders, if any, of the Company as at the date of this annual report.

## DIRECTORS AND SENIOR MANAGEMENT

### CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors of the Company during the year ended 31 December 2022 and up to the date of this report are set out below:

Directors	Details of changes
Mr. Xu	<ul style="list-style-type: none"> <li>— re-appointed as a director and the legal representative of Jiangmen Huajin and Jiangmen Huamu on 10 January 2022</li> <li>— appointed as the supervisor of Jiangmen Jinhong Logistics on 28 February 2022</li> </ul>
Mr. Xu Jianhong	<ul style="list-style-type: none"> <li>— appointed as a director and the legal representative of Jiangmen Huajin Metal Trading on 12 January 2022</li> <li>— appointed as a director and the legal representative of Jiangmen Jinrun Ecotechnology on 27 January 2022</li> <li>— appointed as a director and the legal representative of Jiangmen Jinyang Metal Material on 10 February 2022</li> <li>— appointed as the vice chairman of the Company with effect from 24 February 2022</li> <li>— appointed as a director and the legal representative of Jiangmen Jinhong Logistics on 28 February 2022</li> </ul>
Mr. Luo	<ul style="list-style-type: none"> <li>— appointed as a supervisor of Jiangmen Huajin Metal Trading on 12 January 2022</li> <li>— appointed as a supervisor of Jiangmen Jinrun Ecotechnology on 27 January 2022</li> </ul>

### SENIOR MANAGEMENT

**Mr. Chen Chunniu (陳春牛)**, aged 51, was appointed as an executive Director of the Company on 18 December 2015 and resigned as the executive director of the Company on 24 February 2022. Mr. Chen joined the Group in July 2005 and currently serves as the procurement director of ancillary materials of Jiangmen Huajin and Jiangmen Huamu. Mr. Chen has been primarily responsible for the overall procurement of ancillary materials for the Group. Prior to joining the Group, Mr. Chen worked in an oil pump repairing factory in Jiangmen. Mr. Chen graduated from Jiangmen Advanced Technical Institute (江門市高級技工學校) in June 1990. Mr. Chen also attained a certificate of junior safety officer in Guangdong Province (廣東省初級安全主任證書) issued by Jiangmen Administration of Work Safety (江門市安全生產監督管理局) on 26 October 2005.

**Mr. Wong Chak Keung (黃澤強)**, aged 56, was appointed as the company secretary and the chief financial officer of the Company on 18 December 2015 and 10 July 2017, respectively. Mr. Wong has been in the accounting profession for over 15 years. In addition to his working experience in an international accounting firm in Hong Kong, Mr. Wong has also worked for listed and other companies engaged in investment, accounting, educational business, manufacturing and merger and acquisition. Mr. Wong obtained a bachelor degree in business from The University of Southern Queensland in Australia in 1995. Mr. Wong is also a member of the Hong Kong Institute of Certified Public Accountants and certified practising accountant of CPA Australia, respectively.

## CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report for the year ended 31 December 2022.

### CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieving high corporate governance standards. The Company recognises that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of the shareholders and stakeholders, and enhance shareholder value.

The corporate governance principles of the Group emphasise an effective Board, sound internal controls, appropriate independence policy, and transparency and accountability to the Shareholders. The Group is committed to striking a balance between earnings and sustainable development. The Company believes outstanding business environment, society and corporate governance are fundamental to maintaining long-term sustainable success.

The Company has applied the principles of good corporate governance and adopted the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules as its code of corporate governance. The Company has complied with the applicable code provisions in the CG Code throughout the year ended 31 December 2022, except as noted hereunder.

#### Code provision C.1.6

Under code provision C.1.6 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Goh Choo Hwee, an independent non-executive director, was unable to attend the annual general meeting of the Company held on 28 June 2022 (the "AGM") due to his business engagement. The remaining independent non-executive directors, namely, Mr. Tam Yuk Sang Sammy, the then respective chairman of the audit committee and the remuneration committee, and Mr. Ou Qiyuan, were present and were available to answer questions at the AGM.

#### Code provision C.2.7

Under code provision C.2.7 of the CG Code, the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors. Due to the outbreak of Covid-19, Mr. Xu, the chairman, failed to hold physical meeting at least annually with the independent non-executive directors without the presence of other directors. The chairman attended the meetings with the independent non-executive directors in the nomination committee meeting and the remuneration committee meeting by means of electronic facilities during the year ended 31 December 2022 and the independent non-executive directors were able to communicate their views individually to the chairman by different electronic means.

The Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in the CG Code.

The Directors will continue to use their best endeavours to procure the Company to comply with the CG Code.

## CORPORATE GOVERNANCE REPORT

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all the Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2022.

The Company has also adopted the Model Code as the standard of dealings in the Company's securities for relevant employees who are likely to possess unpublished inside information in relation to the Group. No incident of non-compliance by the relevant employees was noted by the Company during the year under review.

### BOARD OF DIRECTORS

The Board is responsible for providing high-level guidance and effective oversight of the Group's management and operation. In addition, the Board has also delegated various responsibilities to the Board committees and further details of these Board committees are set out in this report.

The Board is also responsible for performing the corporate governance duties as set out below:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Company;
2. to review and monitor the training and continuous professional development of Directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct applicable to Directors and employees; and
5. to review the Company's compliance with the GC Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

#### (a) Board composition

The Board currently comprises a combination of four executive Directors and three independent non-executive Directors. The profile, role and function of each Director, their relationship with each other and the membership of the board committees are set out in the section headed "Directors and senior management" in this annual report.

During the year under review, the Company had complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules regarding the appointment of a sufficient number of independent non-executive Directors representing at least one-third of the Board and at least one of the independent non-executive Directors having appropriate professional qualifications or accounting or related financial management expertise.

## CORPORATE GOVERNANCE REPORT

Mr. Xu is the elder brother of Mr. Xu Songman. Mr. Xu Jianhong is the son of Mr. Xu and a nephew of Mr. Xu Songman. Save as disclosed above, there is no other relationship, including financial, business, family or other material/relevant relationship(s), if any, between the Board members of the Company.

All Directors, including independent non-executive Directors, are subject to retirement by rotation at least once every three years.

**(b) Board proceedings**

During the year ended 31 December 2022, seven board meetings were held. Prior notices convening the board meetings were despatched to the Directors setting out the matters to be discussed. At the meetings, the Directors were provided with an agenda, accompanying board papers and relevant documents to be discussed and approved. The company secretary is responsible for keeping minutes for the board meetings.

The Directors are requested to declare their and their connected entities' direct or indirect interests, if any, in any proposals or transactions to be considered by the Board at Board meetings and abstain from voting in the Board meetings as appropriate.

**(c) Directors' attendance at Board meetings and general meeting**

The attendance record of each Director at the Board meetings and general meeting during the year ended 31 December 2022 is set out in the table below:

Name of Directors	number of attendance/ number of meeting(s)	
	Board meetings	general meeting <i>(note 1)</i>
<b>Executive Directors</b>		
Mr. Xu Songqing	6/7	1/1
Mr. Xu Jianhong	7/7	1/1
Mr. Luo Canwen	7/7	0/1
Mr. Xu Songman	7/7	1/1
Mr. Chen Chunniu <i>(note 2)</i>	n/a	n/a
<b>Independent non-executive Directors</b>		
Mr. Goh Choo Hwee	7/7	0/1
Mr. Ou Qiyuan	6/7	1/1
Mr. Tam Yuk Sang Sammy <i>(note 3)</i>	7/7	1/1
Mr. Suen To Wai <i>(note 4)</i>	n/a	n/a



## CORPORATE GOVERNANCE REPORT

### Notes:

1. Mr. Luo Canwen and Mr. Goh Choo Hwee were absent from the annual general meeting of the Company held on 28 June 2022 due to their business engagement. Other than Mr. Tam Yuk Sang Sammy who attended the general meeting in person, all other Directors attended the annual general meeting of the Company held on 28 June 2022 via teleconference.
2. Mr. Chen Chunniu resigned as the executive Director of the Company with effect from 24 February 2022 as Mr. Chen decided to devote more time to other work arrangements of the Group.
3. Mr. Tam Yuk Sang Sammy resigned as an independent non-executive Director with effect from 17 March 2023 in order to devote more time to pursue his other business and personal commitments.
4. Mr. Suen To Wai was appointed as an independent non-executive Director with effect from 18 March 2023.

### (d) Responsibilities, accountability and contributions of the Board and management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board takes decisions objectively in the interests of the Company.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning and make contributions to the Company and the Group that was commensurate with their role and board responsibilities. An updated list of the Directors identifying their roles and functions is maintained on the respective websites of the Company and the Stock Exchange.

The executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They ensure that proper internal control system is in place and the Group's business conforms to applicable laws and regulations. All independent non-executive Directors bring their wealth of experience to the Board by making a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments to ensure that the Board maintains high standards in financial and other mandatory reporting as well as providing adequate checks for safeguarding the interests of the Shareholders and the Company as a whole.

The Directors acknowledge their responsibilities for preparing the consolidated financial statements that gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the financial statements of the Group. In preparing the consolidated financial statements of the Company for the year ended 31 December 2022, the Directors, with the assistance of the management, selected the suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, and prepared the accounts on the going concern basis. The reporting responsibilities of Deloitte Touche Tohmatsu are stated in the independent auditor's report on pages 52 to 56 of this annual report. As at the date of this report, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The Directors had conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 December 2022.

## CORPORATE GOVERNANCE REPORT

The Directors have each confirmed that he has allocated sufficient time and attention to the affairs of the Group, and have also disclosed their offices held in other public companies and organisations and updated the Company on any subsequent changes in a timely manner.

Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management. The management has the obligation to supply the Board and the various Board committees with monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in a timely manner to enable the Board members to make informed decisions. All Directors have full and timely access to all relevant information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

### **(e) Independence of independent non-executive Directors**

The Board must be satisfied itself that an independent non-executive Directors does not have any material relationship with the Group. The Board is guided by the criteria of independence as set out in the Listing Rules in determining the independence of Directors.

The independent non-executive Directors of the Company, namely Mr. Goh Choo Hwee, Mr. Ou Qiyuan and Mr. Suen To Wai, have each provided annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board continues to consider these Directors to be independent.

### **(f) Directors' induction and continuous professional development**

On appointment to the Board, each Director receives a comprehensive induction package covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

Pursuant to core provision C.1.4 of the CG 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. For the year ended 31 December 2022, all Directors had participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Company's business and/or the Directors' duties and responsibilities.

### **(g) Directors' and officers' insurance**

The Company has arranged appropriate Directors' and officers' ("D&O") insurance cover, which gives appropriate cover for any legal action brought against Directors and officers throughout the year ended 31 December 2022. To ensure sufficient cover is provided, we review the Company's D&O insurance policy annually to ensure that the coverage is sufficient and remains appropriate in light of recent trends in the insurance market and other relevant factors.

## CORPORATE GOVERNANCE REPORT

### CHAIRMAN AND CHIEF EXECUTIVE

According to the CG Code, the roles of the chairman and chief executive should be separate and performed by different individuals to ensure a balance of power and authority so that power is not concentrated in any one individual.

The chairman and chief executive officer of the Company are Mr. Xu and Mr. Luo respectively. The roles of the chairman and chief executive officer are segregated and assumed by two separate individuals who have no relationship with each other. It is aimed at striking a balance of power and authority so that the job responsibilities are not concentrated on any one individual.

The chairman of the Board is responsible for the leadership and effective running of the Board and take primary responsibility for ensuring that good corporate governance practices and procedures are established. The chief executive officer is delegated with the authorities to manage the business of the Group in all aspects effectively.

### NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors is appointed for an initial term of three years which is renewable automatically unless terminated by either party in writing prior to the expiry of the term. All the independent non-executive Directors are also subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company in accordance with the Articles of Association.

### BOARD COMMITTEES

The Board has established three Board committees and has delegated various responsibilities to the committees including the audit committee (the "Audit Committee"), the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee"). All the Board committees perform their distinct roles in accordance with their respective terms of reference which are available to Shareholders on the respective websites of the Company and the Stock Exchange. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

#### Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rule and core provision D.3.3 of the CG Code. The primary duties of the Audit Committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, risk management and internal control systems of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

## CORPORATE GOVERNANCE REPORT

The audit committee currently consists of three independent non-executive Directors, namely Mr. Goh Choo Hwee, Mr. Ou Qiyuan and Mr. Suen To Wai. The chairman of the Audit Committee changed from Mr. Tam Yuk Sang Sammy to Mr. Suen To Wai in mid-March 2023. In compliance with Rule 3.10(2) of the Listing Rules, Mr. Tam Yuk Sang Sammy, the then independent non-executive Director, and Mr. Suen To Wai possess the appropriate professional and accounting qualifications or accounting or related financial management expertise.

During the year ended 31 December 2022, the Audit Committee held three meetings to consider and review, among other things, the following:

- (a) the Company's annual report and the audited results announcement of the Group for the year ended 31 December 2021, and the Company's interim report and the unaudited results announcement of the Group for the six months ended 31 December 2022;
- (b) the reports to the Audit Committee prepared by Deloitte Touche Tohmatsu, the auditors, and the matters reported to the Audit Committee and recommended by the auditors, including any material concerns raised to the management in relation to accounting records, financial statements or internal control systems and the management's responses;
- (c) the accounting policies and practices adopted by the Group;
- (d) the independence and objectivity of the auditor, the scope of audit services and related audit fees payable to the auditor;
- (e) the adequacy and effectiveness of the Company's internal audit function, financial reporting system, internal control system, and risk management;
- (f) the connected transactions of the Group; and
- (g) the audit planning for the year ended 31 December 2022 with the auditor.

There was no disagreement between the Board and the Audit Committee on the selection, appointment of the external auditor during the year ended 31 December 2022.

The Group's audited consolidated results for the year ended 31 December 2022 have been reviewed by the Audit Committee. The Audit Committee has been satisfied with the review of the audit scope, process and effectiveness, independence of Deloitte Touche Tohmatsu and thus recommended to the Board for the approval of the consolidated financial statements.

## CORPORATE GOVERNANCE REPORT

The individual attendance record of each member of the Audit Committee is as follows:

Name of Directors	Number of attendance/ number of meetings
Mr. Goh Choo Hwee	3/3
Mr. Ou Qiyuan	3/3
Mr. Tam Yuk Sang Sammy	3/3
Mr. Suen To Wai	n/a

### Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with core provision B.3.1 of the CG Code. The primary duties of the Nomination Committee are to (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) assess the independence of independent non-executive directors; and (iv) make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors.

The Nomination Committee consists of four members, of whom three are independent non-executive Directors. The current members are Mr. Xu, Mr. Goh Choo Hwee, Mr. Ou Qiyuan and Mr. Suen To Wai. Mr. Xu is the chairman of the Nomination Committee.

### **Board diversity policy**

The Board recognizes and embraces the benefits of having a diverse Board to enhance its performance and to achieve a sustainable and balanced development. The Board has adopted a board diversity policy which sets out the approach to achieve and maintain its diversity. The board diversity policy provides that selection of Board candidates should be based on a range of different considerations, including but not limited to professional experience, skills, gender, age, cultural and educational background, ethnicity and length of service. When identifying potential candidates to the Board, the nomination committee and the Board will, among others, consider the criteria that promote diversity on the Board.

The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board. All Board appointments will be based on meritocracy having due regard for the benefits of diversity on the Board. The ultimate selection of Board candidates will be based on merit and potential contribution to the Board with reference to the board diversity policy as a whole.

## CORPORATE GOVERNANCE REPORT

The Board's composition as at the date of this report under diversified perspectives is summarised as follows:

Designation	4 executive Directors 3 independent non-executive Directors
Education background	postgraduate certificate: 1 Director bachelor degree: 3 Directors others: 3 Directors
Gender	7 male Directors 0 female Director
Age group	25 to 30: 1 Director 46 to 50: 4 Directors 51 to 55: 2 Directors
Directorship with the Company	less than 1 year: 1 Director 1 to 2 years: 1 Director 5 to 6 years: 1 Director 7 to 8 years: 3 Directors 8 to 9 years: 1 Director
Working or professional experience	5 to 6 years: 1 Director 15 to 16 years: 1 Director over 20 years: 5 Directors

The Board aims to achieve gender diversity by the appointment of one female Director on or before 31 March 2024. To develop a pipeline of potential successors to the Board to achieve gender diversity, the Company has adopted relevant hiring policies for considering candidates of director(s) (including senior management positions) which would take into account diversity perspectives including gender diversity.

As at 31 December 2022, the percentage of male and female in the workforce (including the senior management) was 79.9% and 20.1% respectively. The Board recognises that the manufacturing industry is largely male-dominated and the Group will continue to take into account diversity perspectives including gender diversity in its future hiring to maintain gender diversity across its workforce (including its senior management).

### ***Nomination policy***

The Board has adopted the policy for the nomination of directors in relation to the nomination, appointment, reappointment of Directors and the nomination procedure of the Company, which provides that in evaluating and selecting any candidate for directorship, the nomination committee shall consider the candidates' character and integrity, professional qualifications, skills, knowledge and experience, independence, diversity on the Board, willingness to devote adequate time to discharge duties as a Board member and such other criteria that are appropriate to the business of the Company.

During the year ended 31 December 2022, the Nomination Committee held one meeting. The Nomination Committee carried out the process of selecting and recommending to the Board candidates for directorship with reference to diversity policy of the Company, including the candidate's professional knowledge, industry experience, personal ethics, integrity and skills, evaluated the Board's composition, assessed the independence of independent non-executive Directors and recommended the re-appointment of retiring Directors for Shareholders' approval at the general meeting.

## CORPORATE GOVERNANCE REPORT

The individual attendance record of each member of the Nomination Committee is as follows:

Name of Directors	Number of attendance/ number of meetings
Mr. Xu Songqing	1/1
Mr. Goh Choo Hwee	1/1
Mr. Ou Qiyuan	1/1
Mr. Tam Yuk Sang Sammy	1/1
Mr. Suen To Wai	n/a

### Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with core provision E.1.2 of the CG Code. The primary duties of the Remuneration Committee include (but not limited to): (a) making recommendations to the Board on the policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) making recommendations on the terms of the specific remuneration package of the Directors and senior management; and (c) reviewing and approving performance-based remuneration proposals with reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee consists of four members, of whom three are independent non-executive Directors. The current members are Mr. Xu, Mr. Goh Choo Hwee, Mr. Ou Qiyuan and Mr. Suen To Wai. The chairman of the Remuneration Committee changed from Mr. Tam Yuk Sang Sammy to Mr. Suen To Wai in mid-March 2023.

During the year ended 31 December 2022, the Remuneration Committee held one meeting. The Remuneration Committee determined the policy for the remuneration of the Directors, assessed the performance of the Directors and approved the terms of their service contracts. The Remuneration Committee had also made recommendations to the Board regarding the Company's remuneration policy and the formulation and review of the remuneration package of all Directors and senior management of the Company for determination by the Board. Emoluments of the Directors of the Company, senior management and five highest paid individuals of the Group during the year under review are disclosed in note 11(a), 11(b) and 11(c), respectively, to the consolidated financial statements.

The individual attendance record of each member of the Remuneration Committee is as follows:

Name of Directors	Number of attendance/ number of meetings
Mr. Xu Songqing	1/1
Mr. Goh Choo Hwee	1/1
Mr. Ou Qiyuan	1/1
Mr. Tam Yuk Sang Sammy	1/1
Mr. Suen To Wai	n/a

## CORPORATE GOVERNANCE REPORT

## EXTERNAL AUDITORS

Below is an analysis of remuneration in respect of audit and non-audit services provided by the external auditors for the year ended 31 December 2022 and the amount charged to profit or loss during the year ended 31 December 2022 is shown in note 10 to the consolidated financial statements on page 92 of this annual report.

	Deloitte Touche Tohmatsu <i>RMB'000</i>	Other auditors <i>RMB'000</i>	Total <i>RMB'000</i>
Audit services:			
Annual audit service	2,273	447	2,720
Non-audit services*:			
Other related services	550	96	646
Total	2,823	543	3,366

\* The non-audit services included the review of interim consolidated financial statements, tax advising services and other fee of the Group.

## COMPANY SECRETARY

The company secretary plays an important role in supporting the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The company secretary is responsible for advising the Board through the chairman and/or the chief executive on governance matters and should also facilitate induction and professional development of directors. All Directors should have access to the advice and services of the company secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed.

The appointment of company secretary is appointed by the Board. The company secretary is an employee of the Group and has day-to-day knowledge of the Company's affairs. Biographical details of the company secretary are set out in the section "Directors and Senior Management" in this annual report. The company secretary confirmed that he undertook no less than 15 hours of relevant professional training and relevant updates during the year ended 31 December 2022.



## CORPORATE GOVERNANCE REPORT

### SHAREHOLDER RIGHTS

#### (a) Convening an extraordinary general meeting (“EGM”) and putting forward proposals at EGM.

Pursuant to Article 58 of the Article of Association, the Board may whenever it thinks fit call EGM. Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may 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.

Save for the procedures for Shareholders to convene an EGM as set out above, there are no provisions allowing Shareholders to put forward proposals at the general meeting under the Articles of Association. Shareholders may follow the procedures set out above to convene an EGM for any business specified in such written requisition.

#### (b) Procedures for directing shareholders’ enquiries to the Board.

Shareholder(s) may at any time send their enquiries and concerns to the Board in writing through the company secretary by post at Room 518, Tower A, New Mandarin Plaza, No. 14 Science Museum Road, Tsim Sha Tsui East, Kowloon, Hong Kong or via email at the contact information as provided on the website of the Company.

The company secretary shall forward the Shareholder(s)’ enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to respond to the Shareholder(s)’ enquires.

### DIVIDEND POLICY

Under Cayman Islands law, dividends may be paid out of the profits of the Company or out of sums standing to the credit of the share premium account. Under the Articles, declaration of dividends is subject to the Shareholders’ approval at our general meeting, but no dividend shall exceed the amount recommended by our Directors. In addition, our Directors may also pay interim or special dividends without Shareholders’ approval as appear to our Directors to be justified by the financial conditions and the profits of the Company. Future dividends payments will also depend on the availability of dividends we will receive from our subsidiaries in the PRC. PRC laws require that dividends be paid only out of distributable profit according to the PRC accounting principles. Our PRC subsidiaries are also required to set aside part of their net profit as statutory reserves which are not available for distribution as cash dividends in accordance with PRC laws. Distributions from our PRC subsidiaries may also be subject to any restrictive covenants in bank credit facilities or loan agreements or other agreements that we or our PRC subsidiaries may enter into in the future.

Subject to the above, our Directors’ discretion, and the applicable laws and regulations, the declaration, payment and amount of any dividends, if paid, will depend on our results of operations, operating and capital requirements, cash flows, financial condition, future prospects, and other factors that our Directors may consider relevant.

## CORPORATE GOVERNANCE REPORT

The Directors currently intend to recommend dividend(s) of around 30% of the net profit available for distribution to the Shareholders, subject to Shareholders' approval, if any, for each financial year ending 31 December in the foreseeable future. Shareholders will be entitled to receive the dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The said intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay dividends at all.

### INVESTOR RELATIONS

The Company believes that effective and proper investor relations play a vital role in creating Shareholders' value, enhancing the corporate transparency as well as establishing market confidence. The Company discloses information in compliance with the Listing Rules, and publishes periodic reports and announcements to the public via the respective websites of the Company and the Stock Exchange respectively in accordance with the relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, fair, accurate and complete, thereby enabling Shareholders, investors as well as the public to make rational and informed decisions.

The Company should ensure that Shareholders are given sufficient notice of general meeting(s) in accordance with the Articles of Association and as required under the Listing Rules. The procedures for demanding and conducting a poll are explained at the meeting(s) prior to the polls being taken. Voting results will be published on the respective websites of the Company and the Stock Exchange on the day of the general meeting(s).

The Company also endeavours to maintain an on-going dialogue with Shareholders and in particular, through general meeting(s) which provides a forum for Shareholders to raise comments and exchange views with the Board. Mr. Luo, the executive Director, and Mr. Goh Choo Hwee, the independent non-executive Director, were absent from the annual general meeting of the Company held on 28 June 2022 (the "AGM") due to their business engagement. Other than Mr. Tam Yuk Sang Sammy, the then independent non-executive Director, who attended the AGM in person, all other Directors (including the chairman of the Board) attended the AGM via teleconference. The engagement partner of Deloitte Touche Tohmatsu also attended the AGM in person. The Directors will be available at the general meeting(s) of the Company to address Shareholders' queries. The Company will continue to take measures to ensure effective Shareholders' communication and transparency.

### CONSTITUTIONAL DOCUMENTS

During the year under review, the Shareholders passed the resolution approving the adoption of amended and restated memorandum of association and articles of association of the Company on 28 June 2022 to (i) allow the Company to hold hybrid general meetings and general meetings by electronic means; (ii) bring the Memorandum and Articles of Association in line with latest legal and regulatory requirements under the applicable laws of the Cayman Islands and the relevant Listing Rules (including the Core Shareholder Protection Standards set out in the amended Appendix 3 to the Listing Rules with effect from 1 January 2022); and (iii) make some other housekeeping improvements. Save as the aforesaid, there are no other changes in the constitutional documents of the Company.

Pursuant to Rule 13.90 of the Listing Rules, the Company has posted its Memorandum and Articles of Association on the respective websites of the Company and the Stock Exchange.

## CORPORATE GOVERNANCE REPORT

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it is responsible for the risk management and internal control systems of the Group and ensuring review of the effectiveness of these systems has been conducted annually. The risk management and internal control systems, which is overseen by the executive Directors and the Group's management, is designed to provide reasonable assurance on the effectiveness and efficiency of operations to safeguard assets against unauthorized use or disposition and to maintain proper accounting records for producing reliable financial information.

The Group's management is responsible for the design, implementation and monitoring such systems while the Board members (including the audit committee) oversees the management in performing its duties on an ongoing basis.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management system. The audit committee supports the Board in monitoring the Group's risk exposures and the design and operating effectiveness of the underlying risk management and internal control systems.

The Group emphasizes the importance of sound risk management and internal control systems which are indispensable for mitigating the Group's key risk exposures. The Group's risk management and internal control systems include a defined management structure with limits of authority, and are designed for the Group to identify and manage the significant risks to achieve its business objectives. For risk management system, the Group has applied risk assessment model to identify, assess and manage different types of risks. The Group is committed to the identification, evaluation, and management of risks associated with its business activities through ongoing assessment with a risk register, by considering and evaluating the likelihood and the impact of each identified risk. For any newly identified significant risks, the Group will evaluate the financial or operational impacts to the Group and adopt mitigating measures to manage such risks. During the reporting year under review, no material changes in the nature and extent of significant risks that might have an adverse impact on the financial position or operations of the Group has been identified.

The Group has developed an internal control system, which covers major financial, operational and compliance controls to safeguard its assets against unauthorised use, ensure maintenance of proper accounting records and compliance with relevant laws and regulations. For any identified internal control weaknesses or defects, the Group will enhance control measures to rectify such control weaknesses or defects. During the reporting year under review, no significant weakness or defects in internal control that might have an adverse impact on the financial position or operations of the Group have been identified.

The Group's management (including the executive Directors, if needed) will hold meetings on a regular basis to discuss, identify, evaluate and manage potential risks and internal control weaknesses that are associated with the Group. The Group has an internal audit function which primarily carries out analysis and independent appraisal of the adequacy and effectiveness of its risk management and internal control systems on an on going basis. The risk management and internal control systems are reviewed by the Board and the audit committee at least annually.

## CORPORATE GOVERNANCE REPORT

The management has provided annual review report and confirmation to the Board and the audit committee on the effectiveness of the risk management and internal control systems for the reporting period under review. The Board has complied with the risk management and internal control code provisions of the CG Code by establishing and maintaining appropriate and effective risk management and internal control systems and reviewing the effectiveness of the Group's risk management and internal control system during the reporting period under review. Such review covered all material controls, including financial, operational and compliance controls. The Board considered that the resources, qualification, and experience of staff of the Group's accounting, internal audit function, and financial reporting function, and their training and budget were adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. During the reporting period under review, no significant area of concern that may affect the financial, operational, compliance controls, and risk management functions of the Group has been identified.

The Group regulates the handling and dissemination of inside information with reference to the "Guidelines on Disclosure of Inside Information" published by the SFC in June 2012 to ensure inside information of the Group remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and the relevant employees about due compliance with all policies regarding the inside information.

The Board strives to uphold the highest level of business ethics and strictly prohibits and stands against any form of bribery, extortion, fraud, or corruption in our business operations. To comply with the applicable laws and regulations, the Group implements internal policies and control mechanisms to strengthen the management practices and prevent improper conduct and unethical behaviour. The Group has also communicated the preventive measures on bribery and corruption to the Directors and the Group's employees. Detailed policies and guidance relating to anti-corruption and conflict of interest are stipulated in the internal policies and staff handbook.

The Board also strictly prohibits all employees, either directly or indirectly, from soliciting or receiving any gifts, rewards, or advantages from any business associates. The Group has established a whistleblowing policy and mechanism to allow the employees and other stakeholders to raise concerns on any potential business misconduct and malpractice confidentially to the Board or the audit committee.

### **CORPORATE GOVERNANCE AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")**

Corporate governance provides the framework within which the Board forms its decisions and build its businesses with the aim to creating long-term sustainable growth for Shareholders and delivering long-term values to all stakeholders. An effective corporate governance structure allows the Group to have a better understanding of, evaluate and manage, risks and opportunities (including environmental and social risks and opportunities). The Board is responsible for effective governance and overseeing ESG matters, as well as assessment and management of material environmental and social risks. For details, please refer to the Company's ESG Report for the year ended 31 December 2022 which is published on the respective websites of the Company and the Stock Exchange on or around 27 April 2023.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Company is an investment holding company and the Group is a leading cold-rolled steel processor in Guangdong Province, the PRC. The Group is principally engaged in processing of hot-rolled steel coils into cold-rolled steel strips, sheets and welded steel tubes and galvanized steel products customised to the specification of the customers covering a wide range of industries, including light industrial hardware, home appliances, furniture, motorcycle/bicycle accessories, LED and lighting. The Group provides processing, cutting, slitting, warehousing and delivery services on customized cold-rolled steel products and galvanized steel products.

Due to the changes in the economic environment related to the Covid-19 pandemic in Mainland China during the year of 2022, the Group was experiencing negative conditions including mainly decreased revenue and increased loss during the year under review.

During the year of 2022, the Group generated revenue of approximately RMB4,663.6 million, representing a decrease of RMB629.4 million or 11.9%, as compared to that of approximately RMB5,293.0 million during the year of 2021. Loss attributable to owners of the Company during the year of 2022 was approximately RMB165.3 million when compared with profit attributable to owners of the Company of approximately RMB62.0 million for the year of 2021.

Even though there was an increase in the sales volume of processed steel products and galvanized steel products during the year of 2022, the net loss of the Group during the year of 2022 was mainly due, among others, to (i) the decrease in the revenue which were adversely affected by the downturn in market conditions; (ii) the decrease in the average processing fee (being the difference between the selling price and the cost of the raw materials) of the Group's processed steel products and galvanized steel products affected by the price fluctuation of hot-rolled steel coils from the suppliers; (iii) the increase in the unit cost of sales; (iv) the increase in administrative expenses; (v) the increase in finance costs; and (vi) partially offset by a deferred tax credit.

The sales volume of processed steel products and galvanized steel products in aggregate was approximately 958,126 tonnes during the year of 2022, representing an increase of approximately 90,681 tonnes or 10.5%, as compared to that of approximately 867,445 tonnes during the year of 2021.

During the year of 2022, the Group acquired property, plant and equipment and incurred construction costs of approximately RMB181.3 million.

The net current liabilities position of approximately RMB452.1 million (31 December 2021: RMB229.6 million) as at 31 December 2022 was primarily attributable to the fact that short-term borrowings were obtained to finance the non-current capital expenditures on property, plant and equipment, and land use rights. The Directors are of the opinion that, in the absence of any unforeseen circumstances and after taking into account (i) the internal resources of the Group, and (ii) the Group's presently available financing facilities and the intended renewal of the existing financing facilities upon maturity, the Group would have sufficient working capital to meet its current liabilities or expand its operations as anticipated.

The capital commitments towards the acquisition of property, plant and equipment, as at 31 December 2022, was approximately RMB90.9 million (31 December 2021: RMB69.1 million), which will be financed by the Group's internal resources and borrowings.

The Board does not recommend the payment of a final dividend for the year of 2022.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Revenue

The Group primarily generates revenue from the sales of processed steel products and galvanized steel products. The revenue decreased to approximately RMB4,663.6 million during the year of 2022, by approximately RMB629.4 million or 11.9%, as compared with that of approximately RMB5,293.0 million during the year of 2021.

The sales volume of processed steel products decreased to approximately 614,740 tonnes during the year of 2022, by approximately 95,036 tonnes or 13.4%, as compared with that of 709,776 tonnes during the year of 2021. The sales volume of galvanized steel products increased to approximately 343,386 tonnes during the year of 2022, by approximately 185,717 tonnes or 117.8%, as compared with that of approximately 157,669 tonnes during the year of 2021. Thus, the sales volume of processed steel products and galvanized steel products in aggregate was approximately 958,126 tonnes during the year of 2022, representing an increase of approximately 90,681 tonnes or 10.5%, as compared to that of 867,445 tonnes during the year of 2021.

The decrease in revenue was mainly attributable to the decrease in the average selling price of our processed steel products and galvanized steel products during the year of 2022. The average selling price of our processed steel products decreased to RMB4,644 per tonne during the year of 2022 as compared with that of RMB5,516 per tonne during the year of 2021. The average selling price of our galvanized steel products decreased to RMB4,524 per tonne during the year of 2022 as compared with that of RMB5,888 per tonne during the year of 2021. In summary, the average selling price of our processed steel products and galvanized steel products decreased to RMB4,601 per tonne during the year of 2022 as compared with that of RMB5,583 per tonne during the year of 2021.

During the year of 2022, the domestic sales in the PRC market, including Hong Kong, contributed over 99% of the revenue while the remaining portion was attributable to sales to the customers located in Southeast Asia.

Other revenue was primarily attributable to the sales of scrap steel residual in our manufacturing process to recycling agents and the provision of processing service to the customers who engage us to process hot-rolled steel coils provided by them. Such other revenue accounted for around 5.5% (2021: 8.5%) of the revenue during the year of 2022.

The following table sets out the breakdown of the revenue during the reporting period:

	Year ended 31 December			
	2022		2021	
	RMB'000	%	RMB'000	%
Sales of processed steel products	<b>2,854,873</b>	<b>61.2</b>	3,914,874	74.0
— processed steel strips and sheets	<b>2,655,077</b>	<b>56.9</b>	3,686,602	69.7
— welded steel tubes	<b>199,796</b>	<b>4.3</b>	228,272	4.3
Sales of galvanized steel products	<b>1,553,571</b>	<b>33.3</b>	928,363	17.5
Others	<b>255,119</b>	<b>5.5</b>	449,800	8.5
	<b>4,663,563</b>	<b>100.0</b>	5,293,037	100.0

## MANAGEMENT DISCUSSION AND ANALYSIS

### Cost of sales

The cost of sales decreased to approximately RMB4,683.7 million during the year of 2022, by approximately RMB400.6 million or 7.9%, as compared with that of approximately RMB5,084.3 million during the year of 2021.

The following table sets out the breakdown of the cost of sales for the periods indicated:

	Year ended 31 December			
	2022		2021	
	RMB'000	%	RMB'000	%
Direct materials	4,235,126	90.4	4,707,326	92.6
Utilities	185,536	4.0	141,469	2.8
Direct labour	88,622	1.9	78,826	1.6
Depreciation expense	80,302	1.7	71,937	1.4
Consumables	79,089	1.7	73,578	1.4
Others	15,020	0.3	11,151	0.2
	<b>4,683,695</b>	<b>100.0</b>	5,084,287	100.0

Direct materials represented the cost of raw materials, primarily hot-rolled steel coils. The direct materials accounted for over 90% (2021: 92%) of the cost of sales during the year of 2022. The decrease in direct materials was mainly attributable to the decrease in the average cost of direct material consumed even though there was an increase in the sales volume of processed steel products and galvanized steel products during the year of 2022. The inventories as at 31 December 2022 were written down by the management in an amount of approximately RMB2.4 million after determining the net realisable value of inventories.

Utilities related primarily to electricity, water, and natural gas consumed throughout the production process. Utilities expenses increased to approximately RMB185.5 million during the year of 2022, by approximately RMB44.0 million or 31.1%, as compared with that of approximately RMB141.5 million the year of 2021. Such increase was mainly due to the increase in sales volume and production activities during the reporting period under review.

The direct labour increased to approximately RMB88.6 million during the year of 2022, by approximately RMB9.8 million or 12.4%, as compared with that of approximately RMB78.8 million during the year of 2021. The increase in direct labour was mainly attributable to employment of additional workers for our Gujing production plant during the reporting period under review.

Depreciation expense experienced an increase to approximately RMB80.3 million during the year of 2022, by approximately RMB8.4 million or 11.7%, as compared with that of approximately RMB71.9 million during the year of 2021. Such increase was mainly due to the increase in depreciation for property, plant and equipment during the year of 2022.

## MANAGEMENT DISCUSSION AND ANALYSIS

Consumables consisted of machinery spare parts and supplies consumed in the production process. Consumables increased to approximately RMB79.1 million during the year of 2022, by approximately RMB5.5 million or 7.5%, as compared with that of approximately RMB73.6 million during the year of 2021. Such increase was mainly attributable to the increased production activity for processed steel products and galvanized steel products during the year of 2022.

Other costs primarily comprised other taxes and surcharges expenses.

### Gross (loss) profit

Even though there was an increase in the sales volume of processed steel products and galvanized steel products, due to the decrease in the average processing fee (being the difference between the selling price and the cost of the raw materials, namely hot-rolled steel coils) of the Group's processed steel products and galvanized steel products, the increase in the unit cost of sales, and the write-down of inventories, the Group incurred a gross loss of approximately RMB20.1 million during the year of 2022 while there was gross profit of approximately RMB208.8 million during the year of 2021.

The gross loss margin was approximately 0.4% during the year of 2022 when compared with gross profit margin of 3.9% during the year of 2021.

The following table sets out the sales volume, average selling price of the products, average cost of direct materials used, and the difference between the average selling price and the average cost of direct materials used for the periods indicated:

	Year ended 31 December	
	2022	2021
Sales volume of processed steel products	<b>614,740 tonnes</b>	709,776 tonnes
— processed steel strips and sheets	<b>575,989 tonnes</b>	670,504 tonnes
— welded steel tubes	<b>38,751 tonnes</b>	39,272 tonnes
Sales volume of galvanized steel products	<b>343,386 tonnes</b>	157,669 tonnes
	<b>958,126 tonnes</b>	867,445 tonnes
Average selling price (per tonne)		
— processed steel products	<b>RMB4,644</b>	RMB5,516
— galvanized steel products	<b>RMB4,524</b>	RMB5,888
— processed steel products and galvanized steel products	<b>RMB4,601</b>	RMB5,583
Average cost of direct materials used (per tonne)	<b>RMB4,265</b>	RMB5,047
Difference (per tonne) between average selling price and average cost of direct materials used		
— processed steel products	<b>RMB379</b>	RMB469
— galvanized steel products	<b>RMB259</b>	RMB841
— processed steel products and galvanized steel products	<b>RMB336</b>	RMB536



## MANAGEMENT DISCUSSION AND ANALYSIS

### Other income, other gains and losses

Other income, other gains and losses decreased to approximately RMB4.5 million during the year of 2022, by approximately RMB8.1 million or 64.3%, as compared with that of approximately RMB12.6 million during the year of 2021. There was a gain of approximately RMB6.7 million on deemed disposal of 95% equity interest in the three previously wholly-owned subsidiaries of the Group during the year of 2021.

### Selling expenses

The selling expenses decreased to approximately RMB39.4 million during the year of 2022, by approximately RMB2.3 million or 5.5%, as compared with that of approximately RMB41.7 million during the year of 2021. The decrease in selling expenses was mainly attributable to the decrease in delivery costs during the year of 2022.

### Administrative expenses

The administrative expenses increased to approximately RMB64.8 million during the year of 2022, by approximately RMB14.5 million or 28.8%, as compared with that of approximately RMB50.3 million during the year of 2021. The increase in administrative expenses was mainly attributable to the increase in salary, equity-settled share-based payments and business related expenses during the year of 2022.

### Investment (loss) gain

There was investment loss on commodity futures contracts amounting to approximately RMB0.7 million was recognised by the Group during the year of 2022 as compared to the investment gain of that amounting to approximately RMB3.3 million during the year of 2021.

### Finance costs

Finance costs increased to approximately RMB79.4 million during the year of 2022, by approximately RMB23.0 million or 40.8%, as compared with that of approximately RMB56.4 million during the year of 2021. Such increase was mainly attributable to the increased level of borrowings during the year of 2022.

### Income tax (credit) expenses

Income tax credit amounted to approximately RMB32.1 million during the year of 2022 while there was income tax expenses amounted to approximately RMB15.0 million during the year of 2021.

### (Loss) profit for the year

The loss attributable to owners of the Company was approximately RMB165.3 million during the year of 2022 when compared with the profit attributable to owners of the Company of approximately RMB62.0 million during the year of 2021.

Net loss margin was approximately 3.5% during the year of 2022 when compared with net profit margin of 1.2% during the year of 2021.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Liquidity and financial resources

As at 31 December 2022, the Group's bank balances and cash decreased to approximately RMB16.1 million, by approximately RMB6.4 million or 28.4%, from approximately RMB22.5 million as at 31 December 2021. The Group's restricted bank deposits increased to approximately RMB189.4 million as at 31 December 2022, by approximately RMB55.7 million or 41.7%, from approximately RMB133.7 million as at 31 December 2021.

As at 31 December 2022, the Group had the net current liabilities and the net assets of approximately RMB452.1 million (2021: RMB229.6 million) and approximately RMB425.3 million (2021: RMB587.0 million), respectively. As at 31 December 2021, the current ratio calculated based on current assets divided by current liabilities of the Group was 76.5% as compared with that of 83.8% as at 31 December 2021

At 31 December 2022, the Group's total borrowings amounted to approximately RMB1,516.1 million (2021: RMB1,229.6 million) and total equity amounted to approximately RMB425.3 million (2021: RMB587.0 million). The gearing ratio of the Group, calculated based on total borrowings divided by total equity, was approximately 3.56 times (31 December 2021: 2.09 times) as at 31 December 2022.

As at 31 December 2022, the Group had total banking facilities relating to bank borrowings (excluding those related to factoring of bills receivables) and bills payables amounted to approximately RMB1,433.1 million, of which approximately RMB1,107.6 million had been utilised, and the unutilised banking facilities amounted to approximately RMB325.5 million. In addition, based on the best estimation of the directors of the Company, all of the currently utilised banking facilities would be renewed upon expiry.

As at 31 December 2022, certain of the Group's borrowings, which were secured by certain assets of the Group, were also secured by personal guarantees from Mr. Xu Songqing and Mr. Luo Canwen respectively. Mr. Xu also agreed to provide necessary financial support to enable the Group to meet its financial obligations as they fall due for a period of fifteen months from the date of approval of these consolidated financial statements.

### Foreign currency exposure

As the functional currency of the PRC subsidiaries is Renminbi ("RMB") and a portion of the revenue is derived from sales to overseas customers who settle in United States dollars ("USD"), we are exposed to risks associated with fluctuations in USD against RMB. In addition, we are exposed to foreign currency risk arising from certain bank balances which are denominated in USD, Hong Kong dollars and Singapore dollars. The Group currently does not have any foreign currency hedging policy. However, the management closely monitors its exposure to foreign currency risk and will consider hedging significant foreign currency exposure should the need arise

### Financial instruments

During the reporting period under review, apart from the commodity futures contracts, the Group had not entered into any financial instruments for hedging purpose.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Material acquisitions and disposal

During the reporting period under review, the Group had no material acquisitions or disposal of subsidiaries, associates and joint ventures.

### Borrowings

Details of the borrowings of the Group as at 31 December 2022 are set out in note 25 to the consolidated financial statements.

### Capital structure

Details of the share capital of the Company are set out in note 29 to the consolidated financial statements.

### Capital commitment

Details of the capital commitment of the Group are set out in note 31 to the consolidated financial statements.

### Pledge of assets

Details of the pledge of assets of the Group are set out in note 32 to the consolidated financial statements.

### Contingent liabilities

During the reporting period under review, the Company provided guarantees to banks as securities for financing facilities granted to certain subsidiaries of the Company in the PRC. The Group did not provide any guarantee to any third parties and did not have contingent liabilities as at 31 December 2022 (2021: nil).

### Employees

As at 31 December 2022, the Group had a total of 1,170 (31 December 2021: 1,155) full-time employees (including executive Directors) in mainland China, Hong Kong and Singapore. The Group's total staff costs (including Directors' remuneration) during the year of 2022 amounted to approximately RMB116.7 million (2021: RMB110.7 million). The Group remunerated the employees based on their performance, experience and prevailing market practices. The Company has share option scheme in place as a means to encourage and reward the eligible employees (including the Directors) for their contributions to the Group's results and business development based on their individual performance. Share options to certain Directors and employees granted on 2 June 2021 and resulted in the share-based payment expenses of approximately RMB4.1 million (2021: RMB3.5 million) included in the above staff costs during the year of 2022.

The Directors are pleased to present this annual report together with audited consolidated financial statements for the year ended 31 December 2022.

All reference below to other sections, reports or notes in this annual report form part of this Directors' report.

## **PRINCIPAL ACTIVITIES**

The Company is an investment holding company and the Group is a leading cold-rolled steel processor in Guangdong Province, the PRC. The Group is principally engaged in processing of hot-rolled steel coils into cold-rolled steel strips, sheets and welded steel tubes and galvanized steel products customised to the specification of the customers covering a wide range of industries, including light industrial hardware, home appliances, furniture, motorcycle/bicycle accessories, LED and lighting. The Group provides processing, cutting, slitting, warehousing and delivery services on customized cold-rolled steel products and galvanized steel products.

A list of the Company's principal subsidiaries as at 31 December 2022 and their particulars are set out in note 40 to the consolidated financial statements.

## **BUSINESS REVIEW**

The Group's revenue is derived primarily from business activities conducted in the PRC and Southeast Asia. An analysis of the Group's performance for the year by operating segment is set out in note 6 to the consolidated financial statements.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of this financial year, and an indication of likely future development in the Group's business, can be found in this report and the sections headed "Chairman's Statement", "Management Discussion and Analysis", and "Corporate Governance Report" of this annual report. Details about the Group's financial risk management are set out in note 37 to the consolidated financial statements.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The Group's financial condition and results of operations would be affected by a number of factors. The principal risks and uncertainties relating to the Group are set out below:

- Our business depends on our customers' ability to sell their products and we rely on customers with short-term orders and it is difficult for us to forecast the volume of their purchases from us in a longer term. Our products are sold to end users of steel including primarily manufacturers of light industrial hardware, home appliances as well as furniture for their further production of their end products. We generally do not enter into long-term sales contracts with our customers. Our customers directly, or through trading companies indirectly, purchase processed steel products and galvanized steel products from us on order-by-order basis for the production of their end products they sell to their customers. The business and prospect of the Group is therefore highly dependent on the demand for the end products manufactured and sold by our customers to the end users and the economic performance of the PRC.

## DIRECTORS' REPORT

- Our business relationship with our major suppliers for our principal raw materials is pivotal for us to purchase the necessary quantities of steel raw materials at market price on a timely basis especially during an excess demand condition and cessation of their supply to us may affect our business and financial conditions. If there is any abrupt increase in the purchase price of our principal raw materials and we are not able to pass on such increase to our customers, our profit margins and operating results may be adversely affected.

### RELATIONSHIPS WITH KEY STAKEHOLDERS

The Group recognises that employees, customers and suppliers are the key to our sustainability and stable development. The Group is committed to establishing a close relationship with its employees, enhancing cooperation with our suppliers and providing processed steel products and galvanized steel products customised to the specification of the customers so as to ensure the Group's sustainable development.

#### (a) Employees

The remuneration packages of our employees include salary, bonuses and allowances. The Group also continues to improve and regularly review and update its policies on remuneration and benefits, training, occupational safety and health. The Group maintains a good relationship with its employees and maintains a relatively low turnover rate. To ensure the quality of our employees and to train up future generations of our management personnel, we provide in-house training to our employees to enhance their knowledge in operation and safety practice as well as training to individual employees according to specific job requirements. The goal of the in-house training is to train our employees and to identify talent, with the aim of providing promotion opportunities within the Company and fostering employee loyalty.

#### (b) Customers

The Group processes hot-rolled steel into cold-rolled steel products and galvanized steel products for our manufacturing customers. We derived most of our revenue from domestic sales which were made mainly to customers located in Guangdong Province, the PRC. Our customers are primarily manufacturers of different industrial products or their agents and steel trading companies which purchase our processed steel products and galvanized steel products for the manufacture of their end products. During the year ended 31 December 2022, we served approximately 1,360 customers per year across a variety of industries in the PRC, including light industrial hardware, home appliances, furniture, motorcycle/bicycle accessories, LED and lighting. With a broad and diversified customer base, we are not dependent on any single customer, group of customers or any particular industry and are able to capture growth in various industries.

#### (c) Suppliers

Our major suppliers are primarily steel producers or their agents and steel trading companies located in the PRC. We have established stable and long-standing business relationship with our key steel raw material suppliers given our large-scale operations and the resultant demand for their products. Our business relationship with our major suppliers for our principal raw materials is pivotal for us to purchase the necessary quantities of steel raw materials at market price on a timely basis. We have an assessment and selection procedure for selecting our suppliers. Our procurement team in general conducts a background assessment which covers various aspects including scale of operation, quality control, delivery time and reputation in the industry on each potential supplier before their admission to our approved supplier list. It is our procurement policy that we only purchase raw materials from approved suppliers to ensure the quality of our raw materials. We also carry out evaluation and assessment of our existing suppliers from time to time. In order to leverage our suppliers' in-depth understanding of the industry and market trends, we closely communicate and collaborate with our major suppliers to obtain the latest market information in anticipation of our customers' future needs. We believe that our long-standing and stable relationship with our suppliers have also helped us to strengthen our relationship with our key customers and maintain our competitiveness.

## **RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 57 of this annual report.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022.

On 21 January 2021, the Board had resolved to declare a special interim dividend of HK\$0.098 per Share in an aggregate amount of HK\$58,800,000 (equivalent to approximately RMB49,022,000).

## **MAJOR SUPPLIERS AND CUSTOMERS**

For the year ended 31 December 2022, the total purchases of raw materials from our five largest suppliers in aggregate accounted for approximately 71.9% (2021: 79.1%) of our total purchases and the total purchases from our largest supplier accounted for approximately 34.0% (2021: 50.6%) of our total purchases of raw materials.

For the year ended 31 December 2022, revenue from our five largest customers in aggregate accounted for approximately 23.7% (2021: 17.0%) of our revenue and revenue from our largest customer accounted for approximately 6.9% (2021: 6.2%) of our revenue.

None of the Directors, their respective close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) had any interest in the customers or suppliers mentioned above.

## **FINANCIAL SUMMARY**

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the section headed "Financial Summary" on page 126 of this annual report

## **DONATIONS**

During the year ended 31 December 2022, the Group's charitable and other donations amounted to RMB150,000 (2021: RMB150,000).

## **PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT**

Details of the movements in the Group's property, plant and equipment during the year ended 31 December 2022 are set out in note 14 to the consolidated financial statements.

Details of the movements in the Group's right-of-use assets during the year ended 31 December 2022 are set out in note 15 to the consolidated financial statements.

Deposits paid for acquisition of property, plant and equipment amounted to approximately RMB27.7 million (2021: RMB61.7 million) as at 31 December 2022.

## DIRECTORS' REPORT

### BORROWINGS

Details of the borrowings of the Group as at 31 December 2022 are set out in note 25 to the consolidated financial statements.

### SHARE CAPITAL

Details of the movements in the Company's share capital during the year ended 31 December 2022 are set out in note 29 to the consolidated financial statements.

### RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2022 are set out in the consolidated statement of changes in equity on page 59 of this annual report and note 39 to the consolidated financial statements, respectively.

### DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserves available for distribution to Shareholders, comprising share premium and retained profit amounted to approximately RMB177.1 million (2021: RMB183.3 million) calculated in accordance with the Companies Act of the Cayman Islands, as amended, supplemented or otherwise modified from time to time.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or applicable laws of the Cayman Islands where the Company is incorporated.

### DIRECTORS

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

#### Executive Directors:

Mr. Xu Songqing (*Chairman*)  
 Mr. Xu Jianhong (*Vice Chairman*) (appointed as the vice chairman on 24 February 2022)  
 Mr. Luo Canwen (*Chief Executive Officer*)  
 Mr. Xu Songman  
 Mr. Chen Chunniu (resigned on 24 February 2022)

#### Independent non-executive Directors:

Mr. Goh Choo Hwee  
 Mr. Qu Qiyuan  
 Mr. Tam Yuk Sang Sammy (resigned on 17 March 2023)  
 Mr. Suen To Wai (appointed on 18 March 2023)

## DIRECTORS' REPORT

Pursuant to Article 83(3) of the Article of Association of the Company, Mr. Suen To Wai shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

Pursuant to Article 84 of the Articles of Association of the Company, Mr. Xu Songqing and Mr. Luo Canwen shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

### BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group and the changes in information of the Directors are set out on pages 10 to 12 of this annual report.

### DIRECTORS' EMOLUMENTS

Details of the Directors' emoluments are set out in note 11(a) to the consolidated financial statements.

No Director waived or has agreed to waive any emoluments and no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2022.

### DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years renewable automatically unless terminated by either party in writing prior to the expiry of the term.

Each of the independent non-executive Directors has entered into a letter of appointment with the Company subject to retirement by rotation and re-election at annual general meetings of the Company and until terminated by either party in writing prior to the expiry of the term.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

### CONFIRMATION FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors the confirmation of their independence pursuant to rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers each of the independent non-executive Directors is independent in accordance with rule 3.13 of the Listing Rules.

### EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY" below and note 30 to the consolidated financial statements, no equity-linked agreement was entered into by the Company during the reporting year or subsisted at the end of the reporting year.



## DIRECTORS' REPORT

### SHARE OPTION SCHEME

Prior to the Listing, the Company conditionally adopted a share option scheme (the "Scheme") on 23 March 2016 which became effective and unconditional upon the Listing. The purpose of the Scheme is to enable the Company to grant options to the Eligible Persons (as defined below) as incentives or rewards for their contribution or potential contribution to the Group.

Details of the Scheme are as follows:

#### a. Purpose

The primary purpose of the Scheme is to grant options as incentives or rewards to Eligible Persons for their contribution or potential contribution to the Group.

#### b. Eligible Persons

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (h) below to any full-time or part-time employee of the Company or any member of the Group, including any executive Director, non-executive Director and independent non-executive Director, and any supplier, customer, agent, advisor and consultant of the Group who, in the sole opinion of the Board, will contribute or have contributed to the Group (collectively, the "Eligible Persons").

#### c. Total number of Shares available for issue

The total number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not exceed 60,000,000 Shares, representing 10% of the Company's issued share capital upon Listing.

The total number of Shares available for issue under the Scheme is 34,727,280 Shares, representing 5.79% of the Company's issued share capital as at the date of this annual report.

Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may: (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the Shareholders in general meeting; and/or (ii) grant options beyond the 10% limit to Eligible Persons specifically identified by the Board.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of the Company (including the Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditor of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

**d. Maximum entitlement for each Eligible Person**

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Person in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company which shall comply with Rules 17.03(4) and 17.06 of the Listing Rules containing the identity of the Eligible Person, the numbers and terms of the options to be granted (and options previously granted to such person, if any) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Person and his/her associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such person must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Person shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Person an offer document in such form as the Board may from time to time determine.

**e. Time of exercise of option**

Options may be exercised at any time commencing on the date as the Board may determine and ending on such date as the Board may determine but shall not exceed ten years from the date of grant (which is the date of offer of grant if the offer for the grant of the option is accepted). The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the date of adoption of the Scheme.

**f. Minimum holding period of the option before it can be exercised**

The Scheme does not specify any minimum holding period but the Board has the authority to determine the minimum period for which a share option in respect of some or all of the shares forming the subject of the share options must be held before it can be exercised.

**g. Acceptance and payment on acceptance**

Offer for the grant of options must be accepted within 28 days from the offer date. Consideration of HK\$1 is required to be paid by the grantee of an option to the Company on acceptance of the offer for the grant of an option.

**h. Exercise price**

The exercise price is determined by the Board, and will not be less than the higher of the closing price of the Shares on the date of offer of grant and the average closing price of the shares for the five business days immediately preceding the date of offer of grant.

## DIRECTORS' REPORT

### i. Remaining life of the Scheme

Subject to earlier termination by the Company in general meeting, the Scheme shall be valid and effective for a period of ten years from the date of its adoption and will expire on 22 March 2026.

The following table shows the movements in the Company's share options granted to the Directors, employees and an consultant under the Scheme during the year ended 31 December 2022.

Name or category of participant	Date of grant of share option	Exercise price of share options per share HK\$	Vesting period	Exercisable Period	Outstanding	Granted during the year	Exercised during the year	Outstanding as at 31 December 2022	
					as at 1 January 2022				reallocation (note 3)
<b>Directors</b>									
Mr. Xu Songqing	2 June 2021	2.75	2 June 2021 to 2 June 2022	3 June 2023 to 2 June 2025	727,272	-	-	727,272	
			2 June 2021 to 2 June 2023	3 June 2024 to 2 June 2026	545,454	-	-	545,454	
			2 June 2021 to 2 June 2024	3 June 2024 to 2 June 2027	545,455	-	-	545,455	
Mr. Xu Jianhong	2 June 2021	2.75	2 June 2021 to 2 June 2022	3 June 2023 to 2 June 2025	727,272	-	-	727,272	
			2 June 2021 to 2 June 2023	3 June 2024 to 2 June 2026	545,454	-	-	545,454	
			2 June 2021 to 2 June 2024	3 June 2024 to 2 June 2027	545,455	-	-	545,455	
Mr. Luo Canwen	2 June 2021	2.75	2 June 2021 to 2 June 2022	3 June 2023 to 2 June 2025	727,272	-	-	727,272	
			2 June 2021 to 2 June 2023	3 June 2024 to 2 June 2026	545,454	-	-	545,454	
			2 June 2021 to 2 June 2024	3 June 2024 to 2 June 2027	545,455	-	-	545,455	
Mr. Xu Songman	2 June 2021	2.75	2 June 2021 to 2 June 2022	3 June 2023 to 2 June 2025	727,272	-	-	727,272	
			2 June 2021 to 2 June 2023	3 June 2024 to 2 June 2026	545,454	-	-	545,454	
			2 June 2021 to 2 June 2024	3 June 2024 to 2 June 2027	545,455	-	-	545,455	
Mr. Chen Chunniu	2 June 2021	2.75	2 June 2021 to 2 June 2022	3 June 2023 to 2 June 2025	2,400,000	-	-	(2,400,000)	
			2 June 2021 to 2 June 2023	3 June 2024 to 2 June 2026	1,800,000	-	-	(1,800,000)	
			2 June 2021 to 2 June 2024	3 June 2024 to 2 June 2027	1,800,000	-	-	(1,800,000)	
Subtotal					13,272,724	-	-	(6,000,000)	7,272,724

## DIRECTORS' REPORT

Name or category of participant	Date of grant of share option	Exercise price of share options per share HK\$	Vesting period	Exercisable Period	Outstanding as at 1 January 2022	Granted during the year	Exercised during the year	reallocation (note 3)	Outstanding as at 31 December 2022
<b>Employees</b>	2 June 2021	2.75	2 June 2021 to 2 June 2022	3 June 2023 to 2 June 2025	4,591,304	-	-	2,400,000	6,991,304
			2 June 2021 to 2 June 2023	3 June 2024 to 2 June 2026	3,443,477	-	-	1,800,000	5,243,477
			2 June 2021 to 2 June 2024	3 June 2024 to 2 June 2027	3,443,476	-	-	1,800,000	5,243,476
			Subtotal				11,478,257	-	-
<b>Consultant</b> (note 4)	2 June 2021	2.75	2 June 2021 to 2 June 2022	3 June 2023 to 2 June 2025	208,696	-	-	-	208,696
			2 June 2021 to 2 June 2023	3 June 2024 to 2 June 2026	156,522	-	-	-	156,522
			2 June 2021 to 2 June 2024	3 June 2024 to 2 June 2027	156,521	-	-	-	156,521
			Subtotal				521,739	-	-
<b>Total</b>					<b>25,272,720</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,272,720</b>

### Notes:

1. The Company's Shares closed at HK\$2.70 on 1 June 2021, being the date immediately before the date of grant.
2. No share options were granted and cancelled during the year ended 31 December 2022.
3. Mr. Chen Chunniu resigned as the executive Director of the Company with effect from 24 February 2022 as Mr. Chen decided to devote more time to other work arrangements of the Group.
4. The consultant is Mr. Lo Hang Fong who has extensive experience in, including but not limited to, corporate finance, mergers and acquisitions, regulatory and compliance matters. The grant of share option to the consultant is to provide him an incentive to share his relevant experience, knowledge and network to support the Group's business development and expansion which will be beneficial to the long-term growth of the Group.

## MANAGEMENT CONTRACTS

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

## DIRECTORS' REPORT

### PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, the Directors of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may sustain or incur in or about the execution of the duties of their office or otherwise in relation thereto. The Company has maintained Directors and officers liabilities insurance and such provisions were in force during the year ended 31 December 2022 and remained in force as of the date of this report.

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

As at 31 December 2022, the interests and short positions of the Directors and the chief executive of the Company and their associates in the Shares and underlying Shares of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

#### Long positions in Shares of the Company

Name of Directors	Nature of interest	Number of Shares held	Percentage of the issued share capital of the Company
Mr. Xu Songqing ("Mr. Xu")	Interest of controlled corporation <sup>(1)</sup>	391,500,000	65.25%
Mr. Luo Canwen ("Mr. Luo")	Interest of controlled corporation <sup>(2)</sup>	54,000,000	9.00%

#### Notes:

- The entire issued share capital of Haiyi is legally and beneficially owned by Intrend Ventures and the entire issued share capital of Intrend Ventures is legally and beneficially owned by Mr. Xu. Each of Mr. Xu and Intrend Ventures is deemed to be interested in all the Shares held by Haiyi by virtue of the SFO.
- The entire issued share capital of Zhong Cheng is legally and beneficially owned by Mr. Luo. Mr. Luo is deemed to be interested in all the Shares held by Zhong Cheng by virtue of the SFO.
- The percentage of shareholding is calculated on the basis of the Company's issued share capital of 600,000,000 Shares as at 31 December 2022.

## DIRECTORS' REPORT

### Long positions in the shares of associated corporations of the Company

Name of Director	Name of associated corporation	Nature of interest	Number of shares held	Percentage of the issued share capital of the associated corporation
Mr. Xu	Haiyi	Interest of controlled corporation <sup>(1)</sup>	1,000	100.00%

Note: The entire issued share capital of Haiyi is legally and beneficially owned by Intrend Ventures and the entire issued share capital of Intrend Ventures is legally and beneficially owned by Mr. Xu.

### Long positions in the underlying shares of the Company

Name of Directors	Nature of interest	Number of underlying shares in respect of the share options granted	Percentage of underlying shares over the Company's issued share capital (Note 2)
Mr. Xu	Beneficial owner	1,818,181	0.30%
Mr. Xu Jianhong	Beneficial owner	1,818,181	0.30%
Mr. Luo	Beneficial owner	1,818,181	0.30%
Mr. Xu Songman	Beneficial owner	1,818,181	0.30%

Notes:

1. Details of the above share options granted by the Company are set out in the section headed "Share option scheme" above.
2. The percentage of shareholding is calculated on the basis of the Company's issued share capital of 600,000,000 Shares as at 31 December 2022.

Save as disclosed above, as at 31 December 2022, none of the Directors or chief executive of the Company nor their associates had any interests or short positions in the Shares or underlying Shares of the Company which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## DIRECTORS' REPORT

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

As at 31 December 2022, so far as the Directors are aware, the following persons or corporations (not being a Director or a chief executive of the Company) who/which had interests and/or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were:

#### Long positions in Shares of the Company

Name of shareholders	Nature of interest	Number of Shares held	Percentage of the issued share capital of the Company
Haiyi Limited ("Haiyi")	Beneficial owner <sup>(1)</sup>	391,500,000	65.25%
Intrend Ventures Limited ("Intrend Ventures")	Interest of controlled corporation <sup>(1)</sup>	391,500,000	65.25%
Zhong Cheng International Limited ("Zhong Cheng")	Beneficial owner <sup>(2)</sup>	54,000,000	9.00%

#### Notes:

- The entire issued share capital of Haiyi is legally and beneficially owned by Intrend Ventures and the entire issued share capital of Intrend Ventures is legally and beneficially owned by Mr. Xu. Each of Mr. Xu and Intrend Ventures is deemed to be interested in all the Shares held by Haiyi by virtue of the SFO,
- The entire issued share capital of Zhong Cheng is legally and beneficially owned by Mr. Luo. Mr. Luo is deemed to be interested in all the Shares held by Zhong Cheng by virtue of the SFO,
- The percentage of shareholding is calculated on the basis of the Company's issued share capital of 600,000,000 Shares as at 31 December 2022.

Save as disclosed above, as at 31 December 2022, the Company has not been notified by any person nor corporation (other than Directors or the chief executive of the Company) who/which had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

**DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS**

Details of the connected transactions and material related party transactions are set out in this report and note 35 to the consolidated financial statements.

Save for the above, no other transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any its subsidiaries was a party and in which a Director of the Company or his connected entity had, directly or indirectly, a material interest subsisted at any time during the year or at the end of the financial year.

**DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Other than the interests in share options of the Company as disclosed in the section headed "Share option scheme" above and note 30 to the consolidated financial statements, at no time during the year ended 31 December 2022 was the Company, its holding company, or any of its subsidiaries or associated corporations, a party to any arrangement which enables the Directors and chief executives of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of acquisition of shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

Save for their respective interests in the Company, none of the Directors and Controlling Shareholders of the Company (as defined under the Listing Rules) nor their respective associates were interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules during the year ended 31 December 2022 and up to the date of this annual report.

**NON-COMPETITION UNDERTAKINGS BY CONTROLLING SHAREHOLDERS**

On 23 March 2016, each of the controlling shareholders, namely Mr. Xu, Mr. Luo, Haiyi, Intrend Ventures and Zhong Cheng entered into the Deed of Non-competition in favour of the Company, pursuant to which they undertook to the Company, inter alia, not to carry on, participate in, hold, engage in, acquire or operate, or to provide any form of assistance to any person, firm or company (except members of the Group) to conduct any business which, directly or indirectly, competes or may compete with the business carried on by the Group from time to time. Upon the execution of the Termination Deed on 16 December 2021, Mr. Luo and Zhong Cheng ceased to be controlling shareholders of the Company and would no longer be bound by the Deed of Non-competition, whereas Mr. Xu, Haiyi and Intrend Ventures will continue to be bound by the Deed of Non-competition notwithstanding the execution of the Termination Deed.

Details of the Deed of Non-competition are set out in the paragraph headed "Relationship with our Controlling Shareholders — Non-competition undertakings" in the Prospectus.



## DIRECTORS' REPORT

Each of the Controlling Shareholders, namely Mr. Xu, Haiyi and Intrend Ventures has provided written confirmation to the Company that, for the year ended 31 December 2022, each of the Controlling Shareholders has complied with the non-competition undertakings (the "Undertakings") given under the Deed of Non-competition.

Upon receiving the above confirmations, the independent non-executive Directors of the Company had reviewed the same as part of the annual examination. In determining whether the Controlling Shareholders had fully complied with the Undertakings, the independent non-executive Directors noted that (a) the Controlling Shareholders declared that they had fully complied with the Undertakings; (b) no new competing business was reported by the Controlling Shareholders for the year ended 31 December 2022; and (c) there was no particular situation rendering the full compliance of the Undertakings being questionable. In view of the above, the independent non-executive Directors confirmed that the Controlling Shareholders had fully complied with the Deed of Non-competition for the year ended 31 December 2022.

### RELATED PARTY TRANSACTIONS

Details of material related party transactions of the Group undertaken in the normal course of business are set out in note 35 to the consolidated financial statements.

### CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2022, the Group had the following continuing connected transactions:

On 1 August 2019, the Group entered into a lease agreement with Hua Jin Holdings, the landlord, to renew the continual use of the office in Singapore at a monthly rental of S\$5,000 for a term of three years commencing from 1 August 2019. On 1 August 2022, the Group renewed the lease agreement (the "Lease Agreement A") with the landlord at the same monthly rental of S\$5,000 for a term of two years commencing from 1 August 2022. Mr. Xu holds the entire equity interest of Hua Jin Holdings and is a director of Hua Jin Holdings. As Mr. Xu is an executive Director and the Controlling Shareholder, Hua Jin Holdings is a connected person pursuant to the Listing Rules. The same monthly rent of the lease was determined after arm's length negotiation between the parties with reference to the market rent of the office as assessed by the previous valuation as assessed by an independent property consultant.

On 15 December 2021, the Group entered into a lease agreement with Oriental Surplus Link, the landlord, to rent a residential premise located at Sai Kung, Hong Kong as staff quarter at a monthly rental of HK\$56,000 for a term of one year commencing from 15 December 2021. On 15 December 2022, the Group renewed the lease agreement (the "Lease Agreement B") with the landlord at the same monthly rental of HK\$56,000 for a term of one year commencing from 15 December 2022. Mr. Xu holds the entire equity interest of Oriental Surplus Link and is a director of Oriental Surplus Link. As Mr. Xu is an executive Director and the Controlling Shareholder, Oriental Surplus Link is a connected person pursuant to the Listing Rules. The monthly rent of the lease was determined after arm's length negotiation between the parties with reference to the then current market rent payable at the time for similar properties in the vicinity.

As the relevant applicable percentage ratios with respect to the transaction contemplated under the Lease Agreement A and the Lease Agreement B on an annual basis are less than 5% and the aggregate consideration for the transaction is less than HK\$3 million, pursuant to Rule 14A.76(1) of the Listing Rules, such transactions constitute de minimis continuing connected transactions which are fully exempt from the relevant reporting, announcement and Shareholders' approval requirements.

The above continuing connected transactions have been reviewed by our independent non-executive Directors who have confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

The Company confirms that it has complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules in respect of the above continuing connected transactions.

### **CONNECTED TRANSACTIONS**

During the year ended 31 December 2022, certain of the Group's borrowings, which were secured by certain assets of the Group, were also secured by personal guarantees from Mr. Xu and Mr. Luo respectively.

The Company confirms that it has complied with the disclosure requirement in accordance with Chapter 14A of the Listing Rules in respect of the above connected transactions.

### **TAX RELIEF**

The Company is not aware of any relief on taxation available to the Shareholders by reason of their holdings of the Shares. If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising of any rights in relation to the Shares, they are advised to consult their professional advisers.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2022.

## DIRECTORS' REPORT

### CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of its Shareholders as a whole. The Company has adopted and committed to the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules and has prepared the corporate governance report, which is set out in the section headed "Corporate Governance Report" on pages 13 to 27 of this annual report. The Board will continue to review and monitor the practices of the Company with an aim to maintaining the highest standard of corporate governance.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

Our PRC subsidiaries are subject to the PRC national and local environmental laws, regulations and rules including, among others, the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). Our production process generates noise, liquid waste, industrial waste water and metropolitan waste water. We consider protection of the environment to be important and have implemented measures such as neutralising the waste water before disposal and recycling of the waste water. Our Directors believe that we have adopted effective measures to prevent and control pollution to the environment. During the reporting period under review, we did not receive any complaint from our customers or any other parties in respect of any environmental protection issues, and we have not experienced any material environmental incidents arising from our production activities. During the reporting period under review, no material administrative sanctions or penalties were imposed upon us for the violation of environmental laws or regulations which had an adverse impact on our operations. Our PRC subsidiaries have obtained the environmental permit necessary to conduct our business and have complied with the relevant environmental laws and regulations in the PRC in all material respects.

As required by the Listing Rules, the Company is required to report on environmental, social and governance ("ESG") information ("ESG Information") on an annual basis and regarding the same period covered in this annual report. The Company's ESG report for the year ended 31 December 2022 is published on the respective websites of the Company and the Stock Exchange on or around 27 April 2023.

### COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company is listed on the main board of the Stock Exchange. The Group accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong and the respective places of incorporation of the Company and its subsidiaries.

During the reporting period and up to the date of this annual report, the Board was unaware of any non-compliance with relevant laws and regulations that have a significant impact on the business and operations of the Group.

**SUFFICIENCY OF PUBLIC FLOAT**

Based on the publicly available information to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

**AUDITOR**

The consolidated financial statements of the Company for the year ended 31 December 2022 have been audited by Deloitte Touche Tohmatsu, who will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution to re-appoint Deloitte Touche Tohmatsu and to authorise the Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Xu Songqing**

*Chairman*

Hong Kong, 31 March 2023

## INDEPENDENT AUDITOR'S REPORT

# Deloitte.

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TO THE SHAREHOLDERS OF  
**HUAJIN INTERNATIONAL HOLDINGS LIMITED**  
華津國際控股有限公司  
*(Incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of Huajin International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 57 to 125, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including 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 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 MATTER

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

## INDEPENDENT AUDITOR'S REPORT

### Key audit matter

#### ***Impairment assessment of the Identified Long-lived Assets (as defined below)***

We identified the impairment assessment of the long-lived assets relating to the Group's business of sales of processed steel products and galvanized steel products, comprising certain property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment (the "Identified Long-lived Assets"), as a key audit matter as significant judgement by the management and estimates are required to assess the amount of impairment of these assets.

During the year ended 31 December 2022, the management of the Group performed an impairment assessment of the Identified Long-lived Assets due to the indication for impairment as disclosed in note 5 to the consolidated financial statements. As at 31 December 2022, the aggregate carrying amount of the Identified Long-lived Assets was RMB1,224,819,000, including certain property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment of RMB1,050,695,000, RMB146,388,000 and RMB27,736,000, respectively, as set out in note 5 to the consolidated financial statements. The management of the Group conducted the impairment assessment by comparing the recoverable amounts of the Identified Long-lived Assets determined by value in use calculations using discounted cash flow model. It is based on financial budgets with reference to historical performance and future market development. The value in use involved significant judgement and estimates with certain key assumptions and inputs, namely revenue growth rate and discount rate.

Based on the management's assessment, no impairment loss of the Identified Long-lived Assets has been recognised in profit or loss for the year ended 31 December 2022.

### How our audit addressed the key audit matter

Our procedures in relation to management's impairment assessment of the Identified Long-lived Assets included:

- Understanding the key controls over the management of the Group's impairment assessment process, including impairment assessment model and key assumptions and inputs;
- Evaluating the independent qualified professional valuer's competence, capabilities and objectivity;
- Engaging our internal valuation specialists to assess the appropriateness of the impairment assessment model and the discount rate used by the management of the Group; and
- Assessing the reasonableness of the key assumptions and inputs used by the management of the Group in determining the value in use, with reference to the historical performance and market data.

## INDEPENDENT AUDITOR'S REPORT

### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

### RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## INDEPENDENT AUDITOR'S REPORT

### 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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 HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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



## INDEPENDENT AUDITOR'S REPORT

We also provide those charged with governance 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 those charged with governance, 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 the independent auditor's report is Wong Kit Sum.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

31 March 2023

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
Revenue	6	4,663,563	5,293,037
Cost of sales		(4,683,695)	(5,084,287)
Gross (loss) profit		(20,132)	208,750
Other income, other gains and losses	7	4,528	12,550
Selling expenses		(39,369)	(41,732)
Administrative expenses		(64,767)	(50,274)
(Loss) profit before investment (loss) gain, net finance costs and taxation		(119,740)	129,294
Investment (loss) gain		(656)	3,261
Finance income	8	2,419	848
Finance costs	8	(79,441)	(56,363)
Finance costs, net	8	(77,022)	(55,515)
(Loss) profit before taxation		(197,418)	77,040
Income tax credit (expenses)	9	32,119	(15,001)
(Loss) profit for the year	10	(165,299)	62,039
Other comprehensive (expense) income <i>Item that will not be reclassified to profit or loss:</i>			
Fair value (loss) gain on equity investments designated at fair value through other comprehensive income ("FVTOCI"), net of income tax		(456)	18
Other comprehensive (expense) income for the year, net of income tax		(456)	18
Total comprehensive (expense) income for the year		(165,755)	62,057
(Loss) earnings per share	13		
— Basic (RMB cents)		(27.55)	10.34
— Diluted (RMB cents)		(27.55)	10.34

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 31 December 2022

	NOTES	2022 RMB'000	2021 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	1,090,121	1,001,892
Right-of-use assets	15	158,647	149,514
Deposits paid for acquisition of property, plant and equipment		27,736	61,670
Equity investments designated at FVTOCI	19	1,768	2,275
Restricted bank deposits	20	15,180	–
Deferred tax assets	28	33,233	3,881
		<b>1,326,685</b>	1,219,232
<b>CURRENT ASSETS</b>			
Inventories	16	134,113	156,903
Trade, bills and other receivables	17	1,145,641	870,814
Financial assets at fair value through profit or loss	18	–	20
Tax recoverable		–	1,431
Restricted bank deposits	20	174,235	133,659
Bank balances and cash	21	16,093	22,547
		<b>1,470,082</b>	1,185,374
<b>CURRENT LIABILITIES</b>			
Trade, bills and other payables and accrued expenses	22	382,845	330,680
Contract liabilities	23	454,141	215,650
Tax payables		1	370
Amounts due to directors	24	3,050	21,200
Borrowings — due within one year	25	1,081,080	845,960
Lease liabilities	26	1,027	1,124
		<b>1,922,144</b>	1,414,984
<b>NET CURRENT LIABILITIES</b>		<b>(452,062)</b>	(229,610)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>874,623</b>	989,622
<b>NON-CURRENT LIABILITIES</b>			
Borrowings — due more than one year	25	435,025	383,670
Lease liabilities	26	2,684	2,708
Deferred income	27	11,550	14,850
Deferred tax liabilities	28	26	1,411
		<b>449,285</b>	402,639
<b>NET ASSETS</b>		<b>425,338</b>	586,983
<b>CAPITAL AND RESERVES</b>			
Share capital	29	4,999	4,999
Reserves		420,339	581,984
<b>TOTAL EQUITY</b>		<b>425,338</b>	586,983

The consolidated financial statements on pages 57 to 125 were approved and authorised for issue by the Board of Directors on 31 March 2023 and are signed on its behalf by:

**Mr. Xu Songqing**  
Director

**Mr. Xu Jianhong**  
Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2022

	Share capital	Share premium	Statutory reserve	Capital reserve	Share-based payments reserve	Fair value reserve of equity investments designated at FVTOCI	Translation reserve	Retained profits	Total
	RMB'000 (note 29)	RMB'000	RMB'000 (Note)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	4,999	184,003	48,065	63,840	-	-	(5,012)	274,518	570,413
Profit for the year	-	-	-	-	-	-	-	62,039	62,039
Other comprehensive income for the year	-	-	-	-	-	18	-	-	18
Total comprehensive income for the year	-	-	-	-	-	18	-	62,039	62,057
Recognition of equity-settled share-based payments	-	-	-	-	3,535	-	-	-	3,535
Dividend recognised as distribution (note 12)	-	-	-	-	-	-	-	(49,022)	(49,022)
Transfer	-	-	7,490	-	-	-	-	(7,490)	-
At 31 December 2021	4,999	184,003	55,555	63,840	3,535	18	(5,012)	280,045	586,983
Loss for the year	-	-	-	-	-	-	-	(165,299)	(165,299)
Other comprehensive expense for the year	-	-	-	-	-	(456)	-	-	(456)
Total comprehensive expense for the year	-	-	-	-	-	(456)	-	(165,299)	(165,755)
Recognition of equity-settled share-based payments	-	-	-	-	4,110	-	-	-	4,110
At 31 December 2022	<b>4,999</b>	<b>184,003</b>	<b>55,555</b>	<b>63,840</b>	<b>7,645</b>	<b>(438)</b>	<b>(5,012)</b>	<b>114,746</b>	<b>425,338</b>

Note: Amount represents statutory reserve of the Group's subsidiaries in the People's Republic of China (the "PRC"). According to the relevant laws in the PRC, the Group's subsidiaries in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2022

	NOTE	2022 RMB'000	2021 RMB'000
OPERATING ACTIVITIES			
(Loss) profit before taxation		(197,418)	77,040
Adjustments for:			
Depreciation of property, plant and equipment		8,174	4,093
Depreciation of right-of-use assets		3,926	3,636
Gain on disposal of property, plant and equipment		(5)	(1,752)
Write-down of inventories		2,361	–
Impairment losses of property, plant and equipment		1,295	–
Write-off of property, plant and equipment		397	–
Impairment losses of trade receivables under expected credit loss (“ECL”) model		551	283
Interest income		(2,419)	(848)
Interest expense		79,441	56,363
Release of deferred income		(3,300)	(3,300)
Share-based payments expenses		4,110	3,535
Gain on deemed disposal of subsidiaries	34	–	(6,688)
Investment loss (gain) on financial assets at fair value through profit or loss (“FVTPL”)		656	(3,261)
Operating cash flows before movements in working capital		(102,231)	129,101
Decrease in inventories		103,581	144,259
Increase in trade, bills and other receivables		(611,718)	(390,450)
Increase in trade, bills and other payables and accrued expenses		20,658	14,525
Increase in contract liabilities		238,491	80,614
Cash used in operations		(351,219)	(21,951)
Income tax paid		(719)	(11,862)
PRC withholding income tax paid		–	(2,650)
PRC corporate income tax refunded		3,214	–
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(348,724)</b>	<b>(36,463)</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2022

	NOTE	2022 RMB'000	2021 RMB'000
<b>INVESTING ACTIVITIES</b>			
Placement of restricted bank deposits		<b>(316,199)</b>	(168,109)
Deposit paid for acquisition and purchase of property, plant and equipment		<b>(105,895)</b>	(126,886)
Upfront payments for right-of-use assets		<b>(12,768)</b>	–
Net cash outflow on deemed disposal of subsidiaries	34	–	(128)
Purchase of financial assets at FVTPL		–	(20)
Withdrawal of financial assets at FVTPL		<b>20</b>	–
Withdrawal of restricted bank deposits		<b>260,443</b>	85,321
Settlement of amounts due from previous subsidiaries disposed of		–	19,757
Proceeds from disposal of property, plant and equipment		<b>67</b>	5,008
Settlements of derivative financial instruments		<b>(656)</b>	3,261
Interest received		<b>2,419</b>	848
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(172,569)</b>	(180,948)
<b>FINANCING ACTIVITIES</b>			
New borrowings raised		<b>1,485,867</b>	1,184,986
Advance from directors		<b>4,288</b>	21,200
Repayment of borrowings		<b>(863,052)</b>	(898,627)
Interest paid		<b>(87,907)</b>	(64,608)
Dividend paid		<b>(575)</b>	(48,447)
Repayment of lease liabilities		<b>(1,349)</b>	(821)
Repayment to directors		<b>(22,438)</b>	–
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b>514,834</b>	193,683
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(6,459)</b>	(23,728)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>22,547</b>	46,236
<b>EFFECTS OF EXCHANGE RATE CHANGES</b>		<b>5</b>	39
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>		<b>16,093</b>	22,547

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 1. GENERAL INFORMATION

Huajin International Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) is a public limited company incorporated in the Cayman Islands as an exempted company and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its immediate and ultimate holding company is Haiyi Limited, a company incorporated in the British Virgin Islands and ultimately controlled by Mr. Xu Songqing (“Mr. Xu”).

The principal activity of the Company is investment holding. The principal activities of the Group’s subsidiaries are set out in note 40. The addresses of the Company’s registered office and principal place of business are disclosed in the section “Corporate Information” of this annual report.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company.

### 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

In preparing the consolidated financial statements of the Group, the directors of the Company has given careful consideration to the future liquidity of the Group in light of the fact that the Group’s current liabilities exceeded its current assets by RMB452,062,000 as at 31 December 2022 and had capital commitments contracted for but not provided in the consolidated financial statements of RMB90,895,000 on the same date, of which RMB38,619,000 is due for payment in the next twelve months from 31 December 2022. The Group had incurred a net cash outflow of RMB6,459,000 and net operating cash outflow of RMB348,724,000 for the year ended 31 December 2022.

In the opinion of the directors of the Company, the Group will be able to continue as a going concern at least in the coming twelve months taking into consideration the available bank facilities from various banks for the operation requirements of the Group based on the past history of renewal of such facilities and the working capital estimated to be generated from operating activities. As at 31 December 2022, the Group had total banking facilities relating to bank borrowings (excluding those related to factoring of bills receivable) and bills payables amounted to approximately RMB1,433,060,000, of which approximately RMB1,107,586,000 had been utilised, and the unutilised banking facilities amounted to RMB325,474,000. In addition, based on the best estimation of the directors of the Company, all of the currently utilised banking facilities would be renewed upon expiry.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

*(Continued)*

Mr. Xu also agreed to provide necessary financial support to enable the Group to meet its financial obligations as they fall due for a period of fifteen months from the date of approval of these consolidated financial statements.

Based on the aforesaid factors, the directors of the Company are satisfied that the Group will have sufficient financial resources to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the directors of the Company consider that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with HKFRS 16 Leases ("HKFRS 16"), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories ("HKAS 2") or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 3. APPLICATION OF AMENDMENTS TO HKFRSs

#### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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

#### ***Impacts on application of Amendments to HKAS 16 Property, Plant and Equipment — Proceeds before Intended Use***

The Group has applied the amendments for the first time in the current year. The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2.

In accordance with the transitional provisions, the Group has applied the new accounting policy retrospectively to property, plant and equipment made available for use on or after the beginning of 1 January 2021. The details of the impacts are set out under "Impacts of application of amendments to HKFRSs on the consolidated financial statements" in this note.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 3. APPLICATION OF AMENDMENTS TO HKFRSS *(Continued)*

#### Impacts of application of amendments to HKFRSS on the consolidated financial statements

The effects of the changes in accounting policies on the consolidated statement of profit or loss and other comprehensive income and loss per share, are as follows:

#### *For the year ended 31 December 2022*

	Amendments to HKAS 16 <i>RMB'000</i>
<b>Impact on loss for the year</b>	
Revenue	177,400
Cost of sales	(190,846)
Income tax expense	2,017
Net increase in loss for the year	(11,429)
	Year ended 31/12/2022 <i>RMB cents</i>
<b>Impact on basic/diluted loss per share</b>	
Basic/diluted loss per share before adjustments	(25.65)
Net adjustments arising from change in accounting policy in relation to:	
— Amendments to HKAS 16	(1.90)
Reported basic/diluted loss per share	(27.55)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 3. APPLICATION OF AMENDMENTS TO HKFRSs (Continued)

#### New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback <sup>3</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) <sup>3</sup>
Amendments to HKAS 1	Non-current Liabilities with Covenants <sup>3</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>3</sup> Effective for annual periods beginning on or 1 January 2024.

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

#### **Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) (the "2020 Amendments") and Amendments to HKAS 1 Non-current Liabilities with Covenants (the "2022 Amendments")**

The 2020 amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
  - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
  - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date, which has been amended with the issuance of the 2022 Amendments as set out below; and

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 3. APPLICATION OF AMENDMENTS TO HKFRSS *(Continued)*

#### New and amendments to HKFRSSs in issue but not yet effective *(Continued)*

#### **Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) (the “2020 Amendments”) and Amendments to HKAS 1 Non-current Liabilities with Covenants (the “2022 Amendments”) *(Continued)***

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 Financial Instruments: Presentation.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 Presentation of Financial Statements (“HKAS 1”) to align the corresponding wordings with no change in conclusion.

The 2022 Amendments modify the requirements introduced by the 2020 Amendments on how an entity classifies debt and other financial liabilities with covenants as current or non-current. The 2022 Amendments specify that only covenants with which the entity is required to comply with on or before the end of the reporting period affect the entity’s right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period. The 2022 Amendments also specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity’s right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

The 2022 Amendments also defer the effective date of the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 Amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group’s outstanding liabilities as at 31 December 2022, the application of the amendments will not result in reclassification of the Group’s liabilities.

#### **Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies**

HKAS 1 is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 3. APPLICATION OF AMENDMENTS TO HKFRSs *(Continued)*

#### **New and amendments to HKFRSs in issue but not yet effective** *(Continued)*

##### **Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies** *(Continued)*

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

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

The application of the amendments is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

##### **Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction**

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes ("HKAS 12") so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 4 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual reporting period beginning on 1 January 2023. As at 31 December 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB3,406,000 and RMB3,711,000 respectively. The Group is still in the process of assessing the full impact of the application of the amendments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its investment with the investee; and
- has the ability to use its power to affect the returns of the investee.

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 listed above.

Consolidation of a subsidiary begins with the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

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.

#### ***Changes in the Group's interests in existing subsidiaries***

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 Financial Instruments ("HKFRS 9") or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good (or a bundle of goods) that is distinct or a series of distinct goods that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good.

Revenue from the sale of cold-rolled steel products, galvanized steel products and hot-rolled steels products and others is recognised at a point in time when the control of the goods has transferred, i.e. when the goods have been delivered to customers.

A contract liability represents the Group’s obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

#### Leases

##### **Definition of 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.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Leases *(Continued)*

##### ***The Group as a lessee***

##### *Short-term leases*

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

##### *Right-of-use assets*

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

##### *Refundable rental deposits*

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Leases *(Continued)*

##### **The Group as a lessee** *(Continued)*

##### *Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Leases *(Continued)*

##### **The Group as a lessee** *(Continued)*

##### *Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

#### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on settlement of monetary items are recognised in profit or loss in the period in which they arise.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

#### Retirement benefit costs

Payments to the retirement contribution scheme including Mandatory Provident Fund Scheme and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

#### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any account already paid.

#### Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Share-based payments *(Continued)*

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share capital/share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained profits.

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from (loss) profit before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or tax deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Taxation** *(Continued)*

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

#### **Property, plant and equipment**

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

Construction in progress for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss. The cost of those items are measured in accordance with the measurement requirements of HKAS 2. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Property, plant and equipment *(Continued)*

##### **Ownership interests in leasehold land and building**

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

##### **Impairment on property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment**

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Impairment on property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment** *(Continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### **Deposits paid for acquisition of property, plant and equipment**

Deposits paid for acquisition of property, plant and equipment are stated in the consolidated statement of financial position at cost less any subsequent accumulated impairment losses, if any. An item of deposit paid for acquisition of property, plant and equipment is transferred to property, plant and equipment upon receipt by the Group.

#### **Bank balances and cash**

Bank balances and cash presented on the consolidated statement of financial position include (i) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash as defined above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Inventories

Inventories are stated at the lower of costs and net realisable value. Costs of inventories are determined on a weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

#### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

#### **Financial assets**

##### *Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Financial instruments *(Continued)*

##### **Financial assets** *(Continued)*

##### *Classification and subsequent measurement of financial assets (Continued)*

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

##### **Amortised cost and interest income**

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Financial instruments *(Continued)*

##### **Financial assets** *(Continued)*

##### *Equity instruments designated as at FVTOCI*

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve of equity investments designated at FVTOCI; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the fair value reserve of equity investments designated at FVTOCI.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

##### *Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

##### *Impairment of financial assets*

The Group performs impairment assessment under ECL model on financial assets which are subject to impairment assessment under HKFRS 9 (including trade, bills and other receivables, restricted bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Financial instruments *(Continued)*

#### **Financial assets** *(Continued)*

#### *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Financial instruments *(Continued)*

##### **Financial assets** *(Continued)*

##### *Definition of default*

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

##### *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

##### *Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Financial instruments *(Continued)*

##### **Financial assets** *(Continued)*

##### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped by considering the following factors:

- Nature of financial instruments;
- Past-due status;
- Nature and size of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Financial instruments** *(Continued)*

##### **Financial assets** *(Continued)*

##### *Derecognition of financial assets*

The Group derecognised a financial asset only when the contractual rights to the cash flows from the assets expire or, when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises the collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

##### **Financial liabilities and equity instruments**

##### *Classification as debt or equity*

Debt and equity instruments issued by the Group are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

##### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

##### *Financial liabilities at amortised cost*

Financial liabilities, including trade, bills and other payables, amounts due to directors and borrowings, are subsequently measured at amortised cost, using the effective interest method.

##### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Financial instruments *(Continued)*

##### **Derivative financial instruments**

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

### 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

#### **Estimated impairment of Identified Long-lived Assets (as defined below)**

Certain long-lived assets are related to the Group's business of sales of processed steel products and galvanized steel products, comprising certain property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment (the "Identified Long-lived Assets"). In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the value in use including cash flow projection and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the management of the Group estimates the recoverable amount of the cash generating unit to which the assets belong. Changing the assumptions and estimates, including discount rate or revenue growth rate in the cash flow projection, could materially affect the net present value used in the impairment assessment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

#### Estimated impairment of Identified Long-lived Assets (as defined below) *(Continued)*

Due to the changes in the current economic environment related to the Covid-19 pandemic during the current year, the Group is experiencing negative conditions including mainly decreased revenue and increased loss for the year. The management of the Group concluded there were indications for impairment and conducted impairment assessment on the recoverable amounts of the Identified Long-lived Assets. As at 31 December 2022, the aggregate carrying amount of the Identified Long-lived Assets was RMB1,224,819,000, including certain property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment of RMB1,050,695,000, RMB146,388,000 and RMB27,736,000, respectively.

The recoverable amounts of the Identified Long-lived Assets have been determined by the management of the Group by value in use calculation using discounted cash flow model on the basis of the cash-generating unit (the "CGU") to which these assets belong. It is based on financial budgets with reference to historical performance and future market development. The value in use involved significant judgement and estimates with certain key assumptions and inputs, namely revenue growth rate and discount rate. As at 31 December 2022 and 2021, no impairment loss of any of the Identified Long-lived Assets has been recognised.

#### Allowance for credit losses on trade receivables from contracts with customers

The Group involved independent and professional qualified valuer for the ECL estimation. The lifetime ECL of trade receivables was estimated collectively based on shared credit risk characteristics, taken into account the nature of the customer and its aging profile. The ECL rate estimation is based on the aging and the historical settlement pattern of the debtors and is adjusted by forward-looking information. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in note 37.

#### Estimated provision for inventories

The management of the Group considers, whilst the contracted selling prices of the Group's processed steel products and galvanized steel products are negotiated according to the market conditions with reference to its costs of inventories, the trends of the market prices of steels are out of the control of the Group and thus imposed pressures to the net realisable values of its inventories. The management of the Group reviews the net realisable values of the inventories at the end of the reporting period based primarily on the latest invoice prices and current market conditions, less the estimates costs of completion and costs necessary to make the sale for the products (if any), to determine if any write-off or provision to write down inventories to their net realisable values is necessary. Where the actual net realisable values of the inventories are less than expected, a material provision may arise. As at 31 December 2022, the inventories amounted to RMB134,113,000 (2021: RMB156,903,000), net of write-down of RMB2,361,000 (2021: nil).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 6. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors Mr. Xu and Mr. Luo Canwen (“Mr. Luo”), being the chief operating decision maker (the “CODM”), in order to allocate resources to segments and to assess their performance. During the years ended 31 December 2022 and 2021, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in the production and sales of processed steel products and galvanized steel products. Therefore, the management considers that the Group has one operating segment only. The Group mainly operates in the PRC and the Group’s non-current assets are also mainly located in the PRC.

The CODM reviews the overall results and financial position of the Group as a whole based on the same accounting policies set out in note 4 and no further segment information is presented.

The Group’s sales of processed steel products and galvanized steel products is recognised when control of the goods has transferred, being when the goods have been shipped or delivered to the customers’ specific locations or when the goods are collected by customers at the Group’s production plants at their choice. The payment terms and credit terms (if any) are set out in note 17. The Group’s product warranty typically requires it to produce products free from defects in material and workmanship and in conformity with specifications of the customers. If the Group fails to meet the product requirements, its customers may return such non-conforming products within 15 days and the Group shall repair or replace such products free of charge.

Disaggregation of revenue from contracts with customers by types of goods is as follow:

	2022 <i>RMB’000</i>	2021 <i>RMB’000</i>
Sales of cold-rolled steel products		
— steel strips and sheets	<b>2,655,077</b>	3,686,602
— welded steel tubes	<b>199,796</b>	228,272
Sales of galvanized steel products	<b>1,553,571</b>	928,363
Sales of hot-rolled steel products and others	<b>255,119</b>	449,800
	<b>4,663,563</b>	5,293,037

All revenue of the Group are recognised at a point in time. All products are delivered within a period less than one year. As permitted under HKFRS 15, the transaction price allocated to the unsatisfied contracts is not disclosed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 6. REVENUE AND SEGMENT INFORMATION *(Continued)*

The Group's revenue is derived from customers located in the PRC (including Hong Kong) and the Southeast Asia. The Group's revenue by the geographical locations of the customers, determined based on the destination of goods delivered, irrespective of the origin of goods, is detailed below:

	2022 RMB'000	2021 RMB'000
PRC (including Hong Kong)	4,642,217	5,277,610
Southeast Asia	21,346	15,427
	<b>4,663,563</b>	5,293,037

No revenue from any customer of the Group contributed over 10% of the total revenue of the Group for the years ended 31 December 2022 and 2021.

### 7. OTHER INCOME, OTHER GAINS AND LOSSES

	2022 RMB'000	2021 RMB'000
Gain on deemed disposal of subsidiaries <i>(note 34)</i>	–	6,688
Government grants <i>(Notes i and ii)</i>	4,165	3,537
Rental income	1,257	–
Net foreign exchange gain	539	75
Gain on disposal of property, plant and equipment	5	1,752
Write-off of property, plant and equipment <i>(note 14)</i>	(397)	–
Impairment losses of property, plant and equipment <i>(note 14)</i>	(1,295)	–
Impairment losses of trade receivables under ECL model <i>(note 37)</i>	(551)	(283)
Others	805	781
	<b>4,528</b>	12,550

Notes:

- (i) Incentives received from the PRC local authorities by the Group as encouragement of its business development amounting to RMB865,000 (2021: RMB237,000) are recognised in the profit or loss for the year ended 31 December 2022 for the purpose of giving immediate financial support to the Group with no future related costs expected to be incurred nor related to any assets.
- (ii) Grants amounting to RMB33,000,000 were recorded as a deferred income in previous years as details are set out in note 27, of which RMB3,300,000 (2021: RMB3,300,000) has been recognised in the profit or loss for the year ended 31 December 2022.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 8. FINANCE INCOME AND COSTS

	2022 RMB'000	2021 RMB'000
Finance costs		
— Interest expense on borrowings, net of amounts capitalised in the cost of qualifying assets of RMB8,466,000 (2021: RMB8,245,000)	(79,272)	(56,199)
— Interest expense on lease liabilities	(169)	(164)
	(79,441)	(56,363)
Finance income:		
— Interest income from bank deposits	2,419	848
Finance costs, net	(77,022)	(55,515)

Borrowing costs capitalised during the year ended 31 December 2022 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.11% (2021: 7.06%) per annum to expenditure on qualifying assets.

### 9. INCOME TAX (CREDIT) EXPENSES

	2022 RMB'000	2021 RMB'000
Current tax charge:		
— PRC Enterprise Income Tax ("EIT")	1	10,948
— PRC withholding income tax	—	2,650
	1	13,598
Overprovision in prior years:		
— PRC EIT	(1,434)	(760)
Deferred tax (credit) charge (note 28)	(30,686)	2,163
Income tax (credit) expenses for the year	(32,119)	15,001

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 9. INCOME TAX (CREDIT) EXPENSES *(Continued)*

The taxation for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of profit or loss and other comprehensive (expense) income as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
(Loss) Profit before taxation	<b>(197,418)</b>	77,040
Tax at the EIT rate of 25% (2021: 25%)	<b>(49,355)</b>	19,260
Tax effect of expenses not deductible for tax purpose	<b>4,163</b>	1,701
Tax effect of income not taxable for tax purpose	–	(594)
Tax effect of tax losses not recognised	<b>822</b>	881
Utilisation of tax losses previously not recognised	<b>(191)</b>	–
Withholding tax on earnings of subsidiaries	<b>(1,334)</b>	3,983
Income tax at concessionary rate	<b>17,091</b>	(6,343)
Effect of super deduction of research and development cost	<b>(3,239)</b>	(2,954)
Effect of different tax rates of subsidiaries operating in other jurisdictions	<b>1,358</b>	(173)
Overprovision in prior years	<b>(1,434)</b>	(760)
Income tax (credit) expense for the year	<b>(32,119)</b>	15,001

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Singapore corporate tax is calculated at 17% of the estimated assessable profit for both years.

PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant enterprise income tax law, implementation rules and notices in the PRC, except for as set out below.

Two major subsidiaries established in the PRC are approved as enterprises that satisfied the conditions as high and new technology enterprises and obtained the Certificates of High and New Technology Enterprises (the "HNTE Certificates") enjoying the preferential enterprise income tax rate of 15% for a consecutive three calendar years from 2019 to 2021. During the current year, the two relevant subsidiaries have renewed and obtained the HNTE Certificates and the concessionary tax rate of 15% continue to be applied for a consecutive three calendar years from 2022 to 2024.

10% withholding income tax is generally imposed on dividends declared in respect of profits earned by the Group's subsidiaries established in the PRC to its subsidiary incorporated in Hong Kong, which entitles a reduced withholding income tax rate of 5% according to the PRC tax regulations when it is qualified as a Hong Kong tax resident.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 10. (LOSS) PROFIT AND TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR

	2022 RMB'000	2021 RMB'000
(Loss) Profit and total comprehensive (expense) income for the year has been arrived at after charging (crediting):		
Directors' remuneration ( <i>note 11</i> )		
— fees	447	523
— other emoluments, salaries, allowances and other benefits	1,226	1,398
— equity-settled share-based payments	1,335	1,845
— retirement benefit scheme contributions	95	99
	<b>3,103</b>	3,865
Staff salaries, allowances and other benefits	98,058	96,021
Equity-settled share-based payments, excluding those of directors	2,688	1,617
Retirement benefit scheme contributions, excluding those of directors	12,805	9,217
Total employee benefit expenses	<b>116,654</b>	110,720
Auditor's remuneration		
— audit services	2,720	2,321
— non-audit services	646	558
Depreciation of property, plant and equipment	91,326	81,138
Less: amount capitalised as cost of inventories manufactured	<b>(83,152)</b>	(77,045)
	<b>8,174</b>	4,093
Depreciation of right-of-use assets	3,926	3,636
Cost of inventories recognised as an expense (including write-down of inventories amounting to RMB2,361,000 (2021: nil))	<b>4,683,695</b>	5,084,287

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' and chief executive's emoluments

Details of the emoluments paid or payable by the Group to the directors and the chief executive of the Company during the years ended 31 December 2022 and 2021 are as follows:

#### **For the year ended 31 December 2022**

Name of directors	Fee <i>RMB'000</i>	Salaries, allowances and other benefits <i>RMB'000</i>	Equity- settled share-based payments <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors:					
Mr. Xu	-	525	294	71	890
Mr. Luo ( <i>Note i</i> )	-	215	294	11	520
Mr. Chen Chunniu ("Mr. Chen") ( <i>Note ii</i> )	-	56	161	2	219
Mr. Xu Songman	-	215	293	-	508
Mr. Xu Jianhong ( <i>Note iii</i> )	-	215	293	11	519
Independent non-executive directors:					
Mr. Goh Choo Hwee	172	-	-	-	172
Mr. Tam Yuk Sang Sammy ( <i>Note iv</i> )	172	-	-	-	172
Mr. Ou Qiyuan	103	-	-	-	103
	447	1,226	1,335	95	3,103

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

#### (a) Directors' and chief executive's emoluments (Continued)

##### For the year ended 31 December 2021

Name of directors	Fee RMB'000	Salaries, allowances and other benefits RMB'000	Equity- settled share-based payments RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:					
Mr. Xu	–	515	253	69	837
Mr. Luo (Note i)	–	208	253	10	471
Mr. Chen	–	301	834	10	1,145
Mr. Xu Songman	–	208	252	–	460
Mr. Xu Jianhong (Note iii)	–	166	253	10	429
Non-executive director:					
Mr. Xu Jianhong (Note iii)	41	–	–	–	41
Independent non-executive directors:					
Mr. Goh Choo Hwee	166	–	–	–	166
Mr. Tam Yuk Sang Sammy	166	–	–	–	166
Mr. Wu Chi Keung (Note v)	125	–	–	–	125
Mr. Ou Qiyuan (Note vi)	25	–	–	–	25
	523	1,398	1,845	99	3,865

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive director's emolument shown above was for his services as a director of the Company.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

#### Notes:

- (i) Mr. Luo is also the chief executive of the Group and his emoluments disclosed above included those for services rendered by him as the chief executive.
- (ii) Mr. Chen resigned as executive director on 24 February 2022.
- (iii) Mr. Xu Jianhong was re-designated from non-executive director to executive director on 1 May 2021. He was also appointed as the vice chairman of the Group on 24 February 2022.
- (iv) Mr. Tam Yuk Sang Sammy resigned as independent non-executive director on 17 March 2023. Mr. Suen To Wai appointed as independent non-executive director with effect from 18 March 2023.
- (v) Mr. Wu Chi Keung resigned as independent non-executive director on 30 September 2021.
- (vi) Mr. Ou Qiyuan appointed as independent non-executive director on 1 October 2021.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2022

**11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS** (Continued)**(b) Emoluments of senior management:**

Of the 20 (2021: 20) senior management of the Company for the year ended 31 December 2022, 8 (2021: 9) of them are directors of the Company and their remuneration has been disclosed in note 11(a) above. The total emoluments of the remaining 12 (2021: 11) senior management are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and other benefits	3,678	3,284
Equity-settled share-based payments	2,688	1,617
Retirement benefit scheme contributions	199	177
	<b>6,565</b>	<b>5,078</b>

The emoluments fell within the following bands:

	Number of senior management	
	2022	2021
Nil to HK\$1,000,000	10	10
HK\$1,000,001 to HK\$1,500,000	2	1
	<b>12</b>	<b>11</b>

**(c) Five highest paid individuals**

The five highest paid individuals of the Group include 1 director (2021: 3 directors) of the Company and 4 (2021: 2) senior managements for the year ended 31 December 2022 whose emoluments have been disclosed in note 11(a) and (b) above.

During the years ended 31 December 2022 and 2021, no emoluments were paid by the Group to any of the directors of the Company, the chief executive, senior management of the Group, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the chief executive of the Group waived or agreed to waive any emoluments during the years ended 31 December 2022 and 2021.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 12. DIVIDENDS

Dividends recognised as distribution during the year:

	2022 RMB'000	2021 RMB'000
Special interim dividend of HK9.8 cents per share	–	49,022

On 21 January 2021, the Board of Directors resolved to declare a special interim dividend of HK9.8 cents per ordinary share, in an aggregate amount of HK\$58,800,000 (equivalent to RMB49,022,000) (2022: nil). No final dividend has been proposed for the year ended 31 December 2022 since the end of the reporting period (2021: nil).

### 13. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share is based on the following data:

	2022 RMB'000	2021 RMB'000
<b>(Loss) earnings:</b>		
(Loss) profit for the year attributable to owners of the Company for the purpose of basic and diluted (loss) earnings per share	<b>(165,299)</b>	62,039

	2022	2021
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<b>600,000,000</b>	600,000,000
Effect of dilutive potential ordinary shares brought by share options (Note)	–	–
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<b>600,000,000</b>	600,000,000

Note: The computation of diluted (loss) earnings per share for the years ended 31 December 2022 and 2021 does not assume the exercise of the Company's options because the adjusted exercise price of unvested options and exercise price of vested options are both higher than the average market price for shares during the years ended 31 December 2022 and 2021.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 14. PROPERTY, PLANT AND EQUIPMENT

	Building RMB'000	Plant and machinery RMB'000	Furniture, fixture and equipment RMB'000	Motor vehicles RMB'000	Leasehold improvement RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2021	489,399	514,889	6,124	6,946	27,557	268,627	1,313,542
Additions	–	9,778	58	148	5,178	136,130	151,292
Transfer	66	165,088	–	–	373	(165,527)	–
Disposal of subsidiaries (note 34)	(31,669)	–	–	–	–	–	(31,669)
Disposals	–	(17,323)	(88)	(180)	–	–	(17,591)
Exchange realignment	–	–	(4)	(37)	(2)	–	(43)
At 31 December 2021	457,796	672,432	6,090	6,877	33,106	239,230	1,415,531
Additions	–	2,242	112	51	7,359	171,542	181,306
Transfer	64,737	130,690	85	618	–	(196,130)	–
Disposals	–	(47)	(142)	(136)	–	–	(325)
Write-off	(1,695)	–	–	–	–	–	(1,695)
Exchange realignment	–	–	15	116	8	–	139
At 31 December 2022	520,838	805,317	6,160	7,526	40,473	214,642	1,594,956
DEPRECIATION AND IMPAIRMENT							
At 1 January 2021	81,174	234,955	4,982	6,165	21,788	–	349,064
Provided for the year	22,160	54,765	284	181	3,748	–	81,138
Disposal of subsidiaries (note 34)	(2,185)	–	–	–	–	–	(2,185)
Disposals	–	(14,094)	(70)	(171)	–	–	(14,335)
Exchange realignment	–	–	(4)	(37)	(2)	–	(43)
At 31 December 2021	101,149	275,626	5,192	6,138	25,534	–	413,639
Provided for the year	23,233	60,058	242	226	7,567	–	91,326
Disposals	–	(32)	(102)	(129)	–	–	(263)
Write-off	(1,298)	–	–	–	–	–	(1,298)
Impairment loss recognised in profit or loss	632	654	–	9	–	–	1,295
Exchange realignment	–	–	12	116	8	–	136
At 31 December 2022	123,716	336,306	5,344	6,360	33,109	–	504,835
CARRYING VALUES							
At 31 December 2022	397,122	469,011	816	1,166	7,364	214,642	1,090,121
At 31 December 2021	356,647	396,806	898	739	7,572	239,230	1,001,892

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis as follows:

Building	Over the shorter of the term of the lease or 20 years
Plant and machinery	9.5% per annum
Furniture, fixture and equipment	9.5%–19.5% per annum
Motor vehicles	19%–33.3% per annum
Leasehold improvement	Over the shorter of the term of the lease or 3 years

All of the building are situated on land under medium-term lease and located in the PRC.

Details of property, plant and equipment pledged as securities for the Group's borrowings are set out in note 32.

#### Impairment assessment

Due to the changes in the current economic environment related to the Covid-19 pandemic during the current year, the Group is experiencing negative conditions including mainly decreased revenue and increased loss for the year. The management of the Group concluded there were indications for impairment and conducted impairment assessment on the recoverable amounts of the Identified Long-lived Assets. As at 31 December 2022, the aggregate carrying amount of the Identified Long-lived Assets was RMB1,224,819,000, including certain property, plant and equipment, right-of-use assets and deposits paid for acquisition of property, plant and equipment of RMB1,050,695,000, RMB146,388,000 and RMB27,736,000, respectively.

The recoverable amounts of the Identified Long-lived Assets have been determined by value in use calculations using discounted cash flow model on the basis of the CGU to which the Identified Long-lived Assets belong and performed by an independent qualified professional valuer not connected to the Group. The cash flow model is based on financial budgets approved by the management of the Group, with a pre-tax discount rate of 13.07%. The revenue growth rate and the expected gross profit margin in the cash flow projection are determined by reference to the historical performance and the market development. The cash flow projection beyond the five-year period is extrapolated using a declined growth rate.

Based on the result of the impairment assessment, the management of the Group determined that the recoverable amount of the CGU is higher than the aggregated carrying amount of the assets allocated, and accordingly, no impairment loss is recognised in profit or loss for the CGU (2021: nil). The management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount.

In addition to aforesaid Identified Long-lived Assets, certain property, plant and equipment amounted to RMB24,350,000 (2021: nil) and right-of-use assets amounted to RMB11,155,000 (2021: nil) were considered idle (the "Idle Assets") as at end of the reporting period, which was considered as an indicator that these assets may be impaired by the management of the Group. The management conducted impairment assessment on the recoverable amounts of the Idle Assets. The recoverable amounts of the Idle Assets are estimated individually using fair value less costs to disposal calculations under Level 3 fair value hierarchy. The fair value less costs to disposal calculations are based on adjusted available market information, where the key input parameters include adjustment factors on market comparable assets and obsolescence rates. As at 31 December 2022, an impairment loss of RMB1,295,000 (2021: nil) in respect of the Idle Assets has been recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 15. RIGHT-OF-USE ASSETS

	Leasehold lands <i>RMB'000</i>	Office premise and furniture <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At 31 December 2022</b>			
Carrying amount	157,543	1,104	158,647
<b>At 31 December 2021</b>			
Carrying amount	148,360	1,154	149,514
<b>For the year ended 31 December 2022</b>			
Depreciation charge	3,584	1,271	4,855
Less: capitalised in qualifying assets	(929)	–	(929)
	2,655	1,271	3,926
<b>For the year ended 31 December 2021</b>			
Depreciation charge	3,714	754	4,468
Less: capitalised in qualifying assets	(832)	–	(832)
	2,882	754	3,636
		<b>2022</b>	<b>2021</b>
		<i>RMB'000</i>	<i>RMB'000</i>
Total cash outflow for leases		14,286	985
Additions to right-of-use assets		13,931	1,355

For both years, the Group leases leasehold lands and office premise and furniture for its operations. Lease contracts are entered into for initial term of 1 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, lease liabilities of RMB3,711,000 are recognised with related right-of-use assets of RMB3,406,000 as at 31 December 2022 (2021: lease liabilities of RMB3,832,000 are recognised with related right-of-use assets of RMB3,609,000). The lease agreements entered into by the Group do not impose any covenants other than the security interests in the certain leased assets that are held by the lessor. Except for certain right-of-use assets pledged as securities for the Group's borrowings set out in note 32, the remaining leased assets may not be used as security for borrowing purposes.

### 16. INVENTORIES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Raw materials	37,121	25,221
Work in progress	47,176	100,893
Finished goods	49,816	30,789
	134,113	156,903

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 17. TRADE, BILLS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables from contracts with customers	50,260	130,368
Less: Allowance for credit losses	(1,222)	(671)
	<b>49,038</b>	129,697
Bills receivables	<b>116,802</b>	141,920
Prepayments to suppliers	<b>914,096</b>	566,322
Value-added tax recoverable	<b>44,743</b>	12,987
Other prepayments, deposits and other receivables	<b>20,962</b>	19,888
	<b>1,145,641</b>	870,814

As at 1 January 2021, trade receivables from contracts with customers amounted to RMB126,565,000.

The Group normally requires full payment upon delivery of goods. For long-term customers with good credit quality and payment history, the Group may allow credit periods of up to 90 days (2021: 90 days).

The following is an aging analysis of trade receivables and bills receivables, net of allowance for credit losses, presented based on the invoice dates and bills maturity dates respectively at the end of each reporting period:

	2022 RMB'000	2021 RMB'000
Trade receivables:		
Within 30 days	40,660	111,508
31–60 days	5,702	9,016
61–90 days	598	2,023
91–120 days	42	4,363
121–180 days	1,461	2,471
181–365 days	440	211
Over 1 year	135	105
	<b>49,038</b>	129,697
Bills receivables:		
Within 30 days	63,073	20,825
31–60 days	8,050	23,523
61–90 days	10,217	29,624
91–120 days	1,852	17,332
121–180 days	33,610	45,724
181–365 days	–	4,892
	<b>116,802</b>	141,920

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 17. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit terms granted to customers are reviewed regularly. All of the trade receivables that are neither past due nor impaired have no history of default.

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB37,189,000 (2021: RMB123,893,000) which are past due as at the reporting date. Out of the past due balances, RMB2,078,000 (2021: RMB229,000) has been past due 90 days or more and is not considered as in default as the Group considered such balances could be recovered based on historical experience and taking into consideration of forward-looking information.

Included in the Group's bills receivables are amounts of RMB113,174,000 (2021: RMB128,596,000), as at 31 December 2022 being the discounted bills receivables transferred to certain banks and suppliers with full recourse. If the issuing banks of bills receivables default payment on maturity, the banks and suppliers have the right of recourse to request the Group to pay the unsettled balance. As the Group has not transferred substantially all the risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and the corresponding amounts in bank borrowings from factoring of bills receivables with full recourse (note 25) and trade payables (note 22). These bills receivables are carried at amortised cost in the consolidated statement of financial position. All the bills receivables are with a maturity period of less than one year.

As at 31 December 2022 and 2021, the Group does not hold any collateral as security over these balances.

	2022 RMB'000	2021 RMB'000
Carrying amount of transferred asset	113,174	128,596
Carrying amount of associated bank borrowings	(96,827)	(67,670)
Carrying amount of associated trade payables	(16,347)	(60,926)
	-	-

During the year ended 31 December 2022, certain transactions between subsidiaries of the Company arising from steel processing services were settled by bank bills. As at 31 December 2022, bills receivables held by two subsidiaries of the Company issued by other members of the Group of RMB148,920,000 (2021: RMB35,000,000) were transferred to certain banks with full recourse similar to the arrangements as set out above. These bills receivables were eliminated in full on consolidation. The Group had recognised the cash received on the transfer of the bills receivables as bank borrowings from factoring of bill receivables with full recourse.

Details of impairment assessment of trade, bills and other receivables are set out in note 37.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	2022 RMB'000	2021 RMB'000
Unlisted investments in trust funds ( <i>Note 1</i> )	–	20
Derivative financial instruments ( <i>Note 2</i> )	–	–
	–	20

Notes:

- Amounts represent investments in trust funds made by the Group through a financial institution in the PRC. The trust funds invest in a range of debt instrument products which are generally corporate loans. The trust fund investments were allowed to redeem daily and the balances were classified as current assets as at 31 December 2021.

They are mandatorily classified as financial assets at FVTPL as their contractual cash flows are not solely payments of principal and interest.

- As at 31 December 2022 and 2021, the Group has no outstanding hot rolled coils future contracts. Future contracts of hot rolled coils entered into during the years ended 31 December 2022 and 2021 have been fully settled before the end of each reporting period. The resulting gain or loss on the derivative financial instruments during the years ended 31 December 2022 and 2021 were recognised in profit or loss and presented as “Investment (loss) gain”.

### 19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Equity investments designated at FVTOCI

	2022 RMB'000	2021 RMB'000
Unlisted equity investments in the PRC, at fair value	1,768	2,275

The above equity investments were irrevocably designated at FVTOCI as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2021, the Group entered into capital injection agreements with three distinct group of investors, being independent third parties, pursuant to which these investors acquired 95% of the enlarged equity interest of the Group’s previously wholly-owned subsidiaries in the PRC set out in note 34. The Group’s equity interests in each of these equity investments have been diluted to 5%. The fair value of the above equity investments on the date of deemed disposal was RMB2,255,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 20. RESTRICTED BANK DEPOSITS

Restricted bank deposits represent deposits pledged to banks for issue of bank bills on the Group's behalf and for secured bank borrowings, as set out in note 32.

Restricted bank deposits carry interest at variable interest rates ranging from 0.25% to 3.77% (2021: 0.30% to 2.10%) per annum as quoted by the People's Bank of China as at 31 December 2022.

### 21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Bank balances carry interest at variable rates which range from 0.01% to 0.39% (2021: 0.01% to 3.00%) per annum as at 31 December 2022.

### 22. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED EXPENSES

	2022 RMB'000	2021 RMB'000
Trade payables ( <i>Note a</i> )	151,904	141,520
Bills payables ( <i>Note b</i> )	85,000	80,740
Accrued staff costs	12,859	11,569
Construction payables	90,924	58,842
Transportation fees payable	4,620	3,111
Unclaimed dividends	–	575
Other tax payables	10,493	12,843
Other payables and accrued expenses	27,045	21,480
	<b>382,845</b>	<b>330,680</b>

Notes:

- (a) Included in the amounts was RMB16,347,000 (2021: RMB60,926,000) related to the trade payables in which the Group has endorsed bills to the relevant suppliers. The details are set out in note 17.
- (b) These relate to the amounts in which the Group has issued bills to the relevant suppliers and were not yet matured as at year end. The Group continues to recognise these trade payables as the relevant banks are obliged to make payments only on due dates of the bills, under the same conditions as agreed with the suppliers without further extension. In the consolidated statement of cash flows, settlements of these bills are included within operating cash flows based on the nature of the arrangements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 22. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED EXPENSES (Continued)

The ageing analysis of the trade payables, excluding those related to the trade payables in which the Group has endorsed bills to the relevant suppliers as described in note 22(a), based on the invoice dates at the end of each reporting period is presented as follows:

	2022 RMB'000	2021 RMB'000
Trade payables:		
Within 30 days	89,101	18,387
31–60 days	23,260	21,631
61–90 days	7,571	5,347
91–120 days	3,169	13,920
121–180 days	4,642	4,297
181–365 days	3,766	13,890
Over 1 year	4,048	3,122
	<b>135,557</b>	80,594

The maturity dates of the trade payables in which the Group has endorsed bills to the relevant suppliers as described in note 22(a) at the end of each reporting period are presented as follows:

	2022 RMB'000	2021 RMB'000
Trade payables:		
Within 30 days	9,958	14,926
31–60 days	748	9,734
61–90 days	2,386	11,819
91–120 days	1,497	16,832
121–180 days	1,758	7,615
	<b>16,347</b>	60,926

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 22. TRADE, BILLS AND OTHER PAYABLES AND ACCRUED EXPENSES (Continued)

The maturity dates of the bills payables at the end of each reporting period are presented as follows:

	2022 RMB'000	2021 RMB'000
Bills payables:		
Within 30 days	–	20,000
31–60 days	80,000	20,000
61–90 days	4,000	–
121–180 days	1,000	40,740
	<b>85,000</b>	80,740

The average credit period granted by suppliers on purchase of goods is no longer than 30 (2021: 30) days from certain of its suppliers. For other suppliers, the Group is required to prepay in advance and make full payment upon receipt of the goods purchased.

### 23. CONTRACT LIABILITIES

	2022 RMB'000	2021 RMB'000
Sales of processed steel products and galvanized steel products and analysed for reporting purpose as current liabilities	454,141	215,650

As at 1 January 2021, contract liabilities amounted to RMB135,036,000.

Contract liabilities represent the deposit amount received from certain customers at the requests of the Group when they place confirmed orders. The entire balance of contract liabilities as at 1 January 2022 and 2021 have been recognised as revenue during the respective reporting periods.

### 24. AMOUNTS DUE TO DIRECTORS

	2022 RMB'000	2021 RMB'000
Mr. Xu	2,890	21,100
Mr. Chen	160	100
	<b>3,050</b>	21,200

Note: The amounts are non-trade in nature, interest free, unsecured and repayable within twelve months from 31 December 2022 and 2021, respectively.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 25. BORROWINGS

	2022 RMB'000	2021 RMB'000
<b>Fixed-rate borrowings:</b>		
Secured bank borrowings	1,031,810	856,500
Bank borrowings from factoring of bills receivables with full recourse ( <i>note 17</i> )	245,747	102,670
Unsecured bank borrowings	–	50,000
Secured borrowings from entities established in the PRC independent with the Group	169,950	141,930
Unsecured borrowings from entities established in the PRC independent with the Group	68,598	78,530
	<b>1,516,105</b>	<b>1,229,630</b>
The carrying amounts of the above bank borrowings are repayable based on the scheduled repayment dates set out in the loan agreements as		
— within one year	950,307	683,930
— more than one year, but not more than two years	103,212	156,210
— more than two years, but not more than five years	223,908	129,950
— more than five years	130	39,080
	<b>1,277,557</b>	<b>1,009,170</b>
Less: amount due within one year shown under current liabilities	<b>(950,307)</b>	<b>(683,930)</b>
Amount shown under non-current liabilities	<b>327,250</b>	<b>325,240</b>
The carrying amounts of the above other borrowings are repayable based on the scheduled repayment dates set out in the loan agreements as		
— within one year	130,773	162,030
— more than one year, but not more than two years	107,775	50,921
— more than two years, but not more than five years	–	7,509
	<b>238,548</b>	<b>220,460</b>
Less: amount due within one year shown under current liabilities	<b>(130,773)</b>	<b>(162,030)</b>
Amount shown under non-current liabilities	<b>107,775</b>	<b>58,430</b>

The ranges of effective interest rates on the Group's borrowings are as follows:

	2022	2021
Fixed-rate borrowings	3.20% to 16.90%	3.04% to 10.55%
Variable-rate borrowings	N/A	N/A

The secured portion of the Group's borrowings are secured by certain assets of the Group as detailed in note 32. Certain of the Group's borrowings are also guaranteed personally by certain directors of the Company.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2022

**26. LEASE LIABILITIES**

	2022 RMB'000	2021 RMB'000
<b>Lease liabilities payable:</b>		
Within one year	1,027	1,124
Within a period of more than one year but not more than two years	268	194
Within a period of more than two years but not more than five years	477	427
Within a period of more than five years	1,939	2,087
	<b>3,711</b>	3,832
Less: amount due for settlement within 12 months shown under current liabilities	<b>(1,027)</b>	(1,124)
Amount due for settlement after 12 months shown under non-current liabilities	<b>2,684</b>	2,708

The incremental borrowing rates applied to lease liabilities range from 1.13% to 5.88% (2021: from 1.13% to 5.88%).

Lease liabilities that are denominated in currencies other than the functional currencies of the relevant group entities, being Hong Kong dollars ("HKD") and Singapore dollars ("SGD"), are set out below:

	HKD RMB'000	SGD RMB'000
As at 31 December 2022	647	458
As at 31 December 2021	996	163

Details of the lease maturity analysis of the Group's lease liabilities are set out in note 37.

**27. DEFERRED INCOME**

Deferred income represents government grants received by the Group's subsidiaries in the PRC from the People's Government of Jiangmen Municipal Xinhui District Muzhou Town, the PRC for and applied towards the construction of the Group's manufacturing plants in Muzhou Town.

The deferred income is released to income over the expected useful life of the relevant assets. Movements of deferred income during both years are as follows:

	2022 RMB'000	2021 RMB'000
Government grants related to assets:		
At the beginning of the year	14,850	18,150
Released to profit or loss	<b>(3,300)</b>	(3,300)
At the end of the year	<b>11,550</b>	14,850

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 28. DEFERRED TAX ASSETS (LIABILITIES)

	2022 RMB'000	2021 RMB'000
Deferred tax assets	33,233	3,881
Deferred tax liabilities	(26)	(1,411)
	<b>33,207</b>	<b>2,470</b>

The deferred tax assets (liabilities) recognised by the Group as at 31 December 2022 and 2021 and the movements during the current and prior years are as follow:

	Government grants RMB'000	Write-down of inventories RMB'000	Impairment losses of property, plant and equipment RMB'000	Tax losses RMB'000	ECL provision and write-off RMB'000	Fair value adjustments of equity investments designated at FVTOCI RMB'000	Undistributed earnings of PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2021	4,538	-	-	-	869	-	-	5,407
(Charge) credit to profit or loss	(825)	-	-	-	71	(75)	(1,334)	(2,163)
Charge to other comprehensive income	-	-	-	-	-	(2)	-	(2)
Release upon deemed disposal of subsidiaries (note 34)	-	-	-	-	(772)	-	-	(772)
At 31 December 2021	3,713	-	-	-	168	(77)	(1,334)	2,470
(Charge) credit to profit or loss	(1,980)	354	194	30,769	15	-	1,334	30,686
Credit to other comprehensive income	-	-	-	-	-	51	-	51
At 31 December 2022	1,733	354	194	30,769	183	(26)	-	33,207

As at 31 December 2022, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries in the PRC for which deferred tax liabilities have not been recognised was approximately RMB25,491,000 (2021: RMB157,307,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 28. DEFERRED TAX ASSETS (LIABILITIES) (Continued)

At the end of the reporting period, the Group has unused tax losses of RMB219,734,000 (2021: RMB7,574,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB205,125,000 (2021: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB14,609,000 (2021: RMB7,574,000) due to the unpredictability of future profit streams. Out of these unrecognised tax losses, RMB6,261,000 (2021: RMB7,387,000) were incurred by entities overseas and may be carried forward indefinitely. The remaining balance of the unrecognised tax losses will expire in the following years:

	2022 RMB'000	2021 RMB'000
2022	–	56
2023	4	4
2024	3	3
2025	2	2
2026	122	122
2027	8,217	–
	<b>8,348</b>	187

### 29. SHARE CAPITAL

Details of movements of share capital of the Company are as follows:

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each		
<b>Authorised:</b>		
At 1 January 2021, 31 December 2021 and 2022	8,000,000,000	80,000
<b>Issued:</b>		
At 1 January 2021, 31 December 2021 and 2022	600,000,000	6,000
	<b>2022 RMB'000</b>	<b>2021 RMB'000</b>
Shown in the consolidated statement of financial position	<b>4,999</b>	4,999

All the shares issued ranked pari passu in all respects with the then existing shares in issue.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 30. SHARE OPTION

Pursuant to a resolution passed on 23 March 2016 by the board of directors of the Company, a share option scheme (the "Share Option Scheme") was adopted.

The purpose of the Share Option Scheme is to provide incentives or rewards to eligible persons for their contribution or potential contribution to the Group.

The board of directors of the Company may, at its discretion, offer to grant an option to subscribe for such number of new shares as the board of directors of the Company may determine at an exercise price which will not be less than the higher of (i) closing price of the shares on the date of offer of grant and (ii) the average closing price of the shares for the five business days immediately preceding the date of offer of grant to any full-time or part-time employee of the Company or any member of the Group, including any executive director, non-executive director and independent non-executive director, and any supplier, customer, agent, advisor and consultant of the Group who, in the sole opinion of the board of directors of the Company, will contribute or have contributed to the Group.

The Share Option Scheme will expire on 22 March 2026.

An option may be exercised at any time commencing on the date as the board of directors may determine and ending on such date as the board of directors may determine but shall not exceed ten years from the date of grant (which is the date of offer of grant if the offer for the grant of the option is accepted). The period during which an option may be exercised will be determined by the board of directors in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. A consideration of HK\$1 is payable upon acceptance of the offer.

No option may be granted more than ten years after the date of adoption of the Share Option Scheme.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and any other share option scheme established by the Company, if any, is 60,000,000, representing 10% of the issued share capital of the Company at the date of approval of the Share Option Scheme. The total maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme, if any, shall not exceed 30% of the issued share capital of the Company from time to time.

Pursuant to a resolution passed on 2 June 2021, the board of directors of the Company has offered to grant share options to certain directors and other eligible grantees under the Share Option Scheme.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 30. SHARE OPTION (Continued)

The table below discloses movement of the Scheme:

	Number of share options
Outstanding as at 1 January 2021	–
Granted during the year	25,272,720
Outstanding as at 31 December 2021 and 2022	25,272,720

Details of share options granted by the Company and outstanding as at 31 December 2022 and 2021 are as follows:

Date of grant	Vesting period	Exercise period	Number of share options granted	Exercise price HK\$
<b>Directors</b>				
2 June 2021	2 June 2021–2 June 2022	3 June 2022–2 June 2025	5,309,088	2.75
	2 June 2021–2 June 2023	3 June 2023–2 June 2026	3,981,816	2.75
	2 June 2021–2 June 2024	3 June 2024–2 June 2027	3,981,820	2.75
			13,272,724	
<b>Other grantees</b>				
2 June 2021	2 June 2021–2 June 2022	3 June 2022–2 June 2025	4,800,000	2.75
	2 June 2021–2 June 2023	3 June 2023–2 June 2026	3,599,999	2.75
	2 June 2021–2 June 2024	3 June 2024–2 June 2027	3,599,997	2.75
			11,999,996	
			25,272,720	

The fair value of the options determined at the date of grant using the Binomial model was HK\$11,598,000. Out of the outstanding share options of 25,272,720 (2021: 25,272,720), 10,109,088 (2021: nil) options were exercisable as at 31 December 2022 with an exercise price of HK\$2.75 per share.

The inputs into the model were as follows:

	2 June 2021
Closing price on the date of grant	HK\$2.75
Exercise price	HK\$2.75
Expected life	ranging from 4 to 6 years
Expected volatility	ranging from 22.70% to 24.29%
Expected dividend yield	2.00%
Risk-free interest rate	ranging from 0.44% to 0.83%



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 30. SHARE OPTION *(Continued)*

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 4 to 5 years. The expected life used in the model has been adjusted, based on the valuer's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the valuer's best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the 31 December 2022 and 2021, the Group reassesses its estimates of the number of options that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share-based payments reserve.

### 31. CAPITAL COMMITMENTS

	2022 RMB'000	2021 RMB'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	90,895	69,061

### 32. PLEDGE OF ASSETS

The Group's borrowings are secured by assets of the Group and the carrying amounts of which at the end of each reporting period are stated below:

	2022 RMB'000	2021 RMB'000
Trade receivables	8,697	–
Property, plant and equipment	879,299	883,953
Right-of-use assets	142,601	145,905
Restricted bank deposits	189,415	133,659
	<b>1,220,012</b>	1,163,517

Furthermore, bills receivables issued by third parties with full recourse for settlement of payables for purchasing of steel raw materials is disclosed in note 25.

In addition to the above, certain equity interests in two PRC subsidiaries of the Group as at 31 December 2021 are also pledged to a bank for banking facilities granted to the relevant subsidiaries. The pledge of equity interests are cancelled on 8 February 2022.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 33. RETIREMENT BENEFIT SCHEMES

The Group participates in a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes at the lower of HK\$1,500 per month or 5% of relevant payroll costs each month to the MPF Scheme, which contribution is matched by the employee.

The Group participates in the Central Provident Fund Scheme ("CPF" or "CPF Scheme"), which is a state-managed retirement benefit scheme operated by Singapore government. The Group is required to make monthly contributions to CPF Scheme in respect of each employee, who is either a citizen or permanent resident of Singapore.

CPF contributions are required for both ordinary wages and additional wages (subject to any ordinary wages ceiling) of employees at the contribution rates prescribed under the Central Provident Fund Act (Cap 36) of Singapore ("CPFA"). Employer must make payment for both employer's and employee's share of the monthly contribution. Pursuant to section 7(2) of the CPFA, the employer is allowed to recover certain amounts as stipulated in the CPFA from the monthly wages of an employee. The only obligation of the Group with respect to the CPF Scheme is to make the specified contributions. The Group has no further payment obligations once the contributions have been paid.

The Group also participates in a state-managed defined contribution retirement scheme organised by the relevant local governmental authority in the PRC. The PRC employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The Group is required to make monthly contributions to the retirement scheme of the eligible employees at 14% of the payroll and the local governmental authority is responsible for the pension liabilities to these employees upon their retirement. The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions.

During the year ended 31 December 2022, the total amounts contributed by the Group to the schemes and cost charged to the profit or loss represent contributions paid/payable to the schemes by the Group at rates specified in the rules of the schemes. The retirement benefits scheme contributions made by the Group amounted to RMB12,900,000 (2021: RMB9,316,000) for the year ended 31 December 2022.

### 34. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2021, the Group entered into capital injection agreements with three distinct group of investors, being independent third parties, pursuant to which these investors acquired 95% of the enlarged equity interest of Jiangmen Huihan Precision Metal Products Company Limited ("Huihan"), Jiangmen Huihao Precision Metal Products Company Limited ("Huihao") and Jiangmen Huiyang Precision Metal Products Company Limited ("Huiyang"), all of which were previously indirect wholly-owned subsidiaries of the Company. On 19 August 2021, Huihan, Huihao and Huiyang have completed the updates on their business registration records of State Administration for Industry and Commerce of the People's Republic of China. Since then, the Group's equity interests in each of Huihan, Huihao and Huiyang have been diluted to 5%, the Group ceased to control and had no significant influence over Huihan, Huihao and Huiyang. Retained equity interests in Huihan, Huihao and Huiyang at the date on which the control being lost are recognised as equity investments designated at FVTOCI (note 19).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 34. DISPOSAL OF SUBSIDIARIES (Continued)

The net liabilities of the subsidiaries were as follows:

	Huihan RMB\$'000	Huihao RMB\$'000	Huiyang RMB\$'000	Total RMB\$'000
<b>Analysis of assets and liabilities over which control was lost during the year ended 31 December 2021:</b>				
Property, plant and equipment	4,872	19,091	5,521	29,484
Right-of-use assets	4,196	8,846	2,728	15,770
Deferred tax assets	–	772	–	772
Trade receivables	192	259	–	451
Bank balances and cash	53	35	40	128
Other payables	(3,447)	(21,866)	(9,116)	(34,429)
Other borrowings	(6,609)	(10,000)	–	(16,609)
Net liabilities disposed of	(743)	(2,863)	(827)	(4,433)

	Huihan RMB\$'000	Huihao RMB\$'000	Huiyang RMB\$'000	Total RMB\$'000
<b>Gain on deemed disposal:</b>				
Fair value of retained interests	637	1,003	615	2,255
Add: net liabilities disposed of	743	2,863	827	4,433
Gain on deemed disposal	1,380	3,866	1,442	6,688

	Huihan RMB\$'000	Huihao RMB\$'000	Huiyang RMB\$'000	Total RMB\$'000
<b>Net cash outflow arising from deemed disposal of subsidiaries:</b>				
Cash and cash equivalents disposed of	53	35	40	128

### 35. RELATED PARTY DISCLOSURES

Other than as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions and balances with related parties:

#### (a) Related parties balances

Details of the outstanding balances with related parties are set out in the consolidated statement of financial position and in note 24.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 35. RELATED PARTY DISCLOSURES (Continued)

#### (b) Related party transactions

The Group entered into the following transactions with related parties:

Name of related parties	Nature of transactions	2022	2021
		RMB'000	RMB'000
Hua Jin Holdings Pte. Ltd (Note i)	Interest expense on lease liabilities	7	10
Oriental Surplus Link Limited (Note ii)	Interest expense on lease liabilities	14	–

Notes:

- (i) The Group entered into a lease agreement with Hua Jin Holdings Pte. Ltd., which was wholly-owned by Mr. Xu, with the lease term till 2022 for the use of office premise and furniture located in Tradehub 21, 8 Boon Lay Way, 609964 in District 22, Singapore. During the current year, the Group have renewed the lease agreement with the lease term till 2024 and made repayment of the lease liability of RMB302,000 (2021: RMB288,000). As at 31 December 2022, the corresponding carrying amount of the lease liabilities is RMB458,000 (2021: RMB163,000).
- (ii) The Group entered into a lease agreement with Oriental Surplus Link Limited, which was wholly-owned by Mr. Xu, with the lease term till 2022 for the use of staff quarter located in Sai Kung, New Territories, Hong Kong. During the current year, the Group have renewed the lease agreement with the lease term till 2023 and made repayment of the lease liability of RMB577,000 (2021: RMB46,000). As at 31 December 2022, the corresponding carrying amount of the lease liabilities is RMB536,000 (2021: RMB490,000).

#### (c) Guarantees provided by related parties

Certain of the Group's borrowings are guaranteed personally by certain directors of the Company as at 31 December 2022 and 2021 as set out in note 25.

#### (d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2022	2021
	RMB'000	RMB'000
Directors' fee	447	523
Salaries, allowances and other benefits	4,904	4,682
Retirement benefit scheme contributions	294	276
Equity-settled share-based payments	4,023	3,462
	<b>9,668</b>	<b>8,943</b>

The remuneration of key management personnel are determined having regard to the performance of the individuals and contribution to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 36. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings and amounts due to directors, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, various reserves and retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost and the risks associated with each class of the capital. Based on the recommendations of the directors, the Group will balance its overall capital structure through the payments of dividends, new shares issue as well as the issue of new debt or the redemption of existing debts, if necessary.

### 37. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	2022 RMB'000	2021 RMB'000
<b>Financial assets</b>		
Financial assets at amortised cost	390,358	444,065
Financial assets at FVTPL	–	20
Equity investments designated at FVTOCI	1,768	2,275
<b>Financial liabilities</b>		
Financial liabilities at amortised cost	1,864,740	1,545,218
Lease liabilities	3,711	3,832

#### (b) Financial risk management objectives and policies

The Group's major financial instruments include trade, bills and other receivables, restricted bank deposits, bank balances, financial assets at FVTPL, equity investments designated at FVTOCI, trade, bills and other payables, amounts due to directors, lease liabilities and borrowings.

Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 37. FINANCIAL INSTRUMENTS *(Continued)*

#### (b) Financial risk management objectives and policies *(Continued)*

##### **Market risk**

##### *(i) Currency risk*

The functional currencies of the Company and its subsidiaries are RMB and most of their transactions are denominated in RMB.

The Group's exposure to foreign currency risk related primarily to certain bank balances, trade receivables and inter-companies balances that are denominated in HKD, United States dollars ("USD") and SGD. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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

	2022 RMB'000	2021 RMB'000
<b>Monetary assets</b>		
HKD	444	1,496
USD	1,056	2,228
SGD	91	21
<b>Monetary liabilities</b>		
HKD	647	996
SGD	458	163

##### *Sensitivity analysis*

The Group mainly exposes foreign currency risk on fluctuation of HKD, USD and SGD during the years ended 31 December 2022 and 2021. Management considered the exposure of foreign currency risk to the Group is not material for both years and no sensitivity analysis is performed.

##### *(ii) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to the fixed-rate borrowings (note 25) and lease liabilities (note 26). The Group is also exposed to cash flow interest rate risk in relation to the restricted bank deposits (note 20) and bank balances (note 21).

The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range. Management considered the exposure of interest rate risk to the Group is not material for both years and no sensitivity analysis is performed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 37. FINANCIAL INSTRUMENTS *(Continued)*

#### (b) Financial risk management objectives and policies *(Continued)*

##### ***Credit risk and impairment assessment***

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade, bills and other receivables, restricted bank deposits and bank balances. As at 31 December 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group is best represented by the carrying amounts of the respective financial assets. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. In general, limits attributed to customers are reviewed every year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model on trade receivables collectively based on shared credit risk characteristics, taken into account the nature of the customer and its aging profile. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

As at 31 December 2022, the Group has concentration of credit risk from trade receivables as 37% (2021: 31%) of the total balances were due from the Group's five largest customers. The management of the Group considers the credit risk of amounts due from these customers is insignificant after considering their historical settlement record, credit quality and financial positions.

As at 31 December 2022, the Group has concentration of credit risk from bills receivables as 82% (2021: 57%) of the total balances were due from the Group's five largest customers.

The management of the Group considers the credit risk associated with bills receivables, which are all bank acceptance drafts, is limited because the accepting bank will cash it unconditionally when the entity presents these bills receivables. The credit risk on the restricted bank deposits and bank balances is also limited because the counterparties are banks with good reputations. The credit risk on other receivables is also limited because of the natures of these balances, credit quality of the counterparties and the historical settlement record.

Other than the concentration of the credit risk as set out above, the Group does not have any other significant concentration of credit risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 37. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives and policies (Continued)

##### **Credit risk and impairment assessment** (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Financial assets other than trade receivables
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	12m ECL
Watch list	Debtor frequently repays in full after due dates	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL — non-credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

Financial assets at amortised costs	Notes	External credit rating	Internal credit rating	12m ECL or lifetime ECL	Gross carrying amount	
					2022 RMB'000	2021 RMB'000
Trade receivables — contract with customers	17	N/A	(Note i)	Lifetime ECL — non-credit-impaired	50,260	129,244
	17	N/A	(Note i)	Lifetime ECL — credit impaired	—	1,124
Other receivables	17	N/A	(Note ii)	12m ECL	19,010	16,242
Bills receivables	17	A2 to Ba3	N/A	12m ECL	116,802	141,920
Restricted bank deposits	20	A2 to Ba3	N/A	12m ECL	189,415	133,659
Bank balances	21	A2 to Ba3	N/A	12m ECL	16,093	22,495



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 37. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives and policies (Continued)

##### Credit risk and impairment assessment (Continued)

Notes:

- (i) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses collectively based on shared credit risk characteristics, taken into account the nature of the customer and its aging profile. The ECL rate estimation is based on the aging and the historical settlement pattern of the debtors and is adjusted by forward-looking information. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on a collective basis.

##### Gross carrying amount

	2022		2021	
	Average loss rate	Trade receivables RMB'000	Average loss rate	Trade receivables RMB'000
Within 30 days	0.45%	40,846	0.20%	111,727
31–60 days	0.40%	5,725	0.25%	9,039
61–90 days	0.09%	598	0.34%	2,030
91–120 days	18.06%	52	0.16%	4,370
121–180 days	32.73%	2,171	8.75%	2,708
181–365 days	33.34%	660	37.20%	336
Over 1 year	34.94%	208	33.54%	158
		<b>50,260</b>		<b>130,368</b>

The following table shows the movement in ECL that has been recognised for trade receivables.

	Lifetime ECL (non-credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
<b>As at 1 January 2021</b>	–	388	388
Changes due to financial assets recognised as at 1 January 2021:			
— Impairment losses reversed	–	(388)	(388)
New financial assets originated during the year:			
Impairment losses recognised	259	412	671
<b>As at 31 December 2021</b>	<b>259</b>	<b>412</b>	<b>671</b>
Changes due to financial assets recognised as at 1 January 2022:			
— Impairment losses reversed	(259)	(412)	(671)
New financial assets originated during the year:			
Impairment losses expense	1,222	–	1,222
<b>As at 31 December 2022</b>	<b>1,222</b>	<b>–</b>	<b>1,222</b>

- (ii) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk in other receivables has increased significantly since initial recognition. As at 31 December 2022 and 2021, these balances are debtors which are not past due or do not have fixed repayment as at the reporting date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 37. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives and policies (Continued)

##### Liquidity risk

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. The Group relies on borrowings as a significant source of liquidity.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date, on which the Group can be required to pay. Specifically, amounts due to directors which are repayable within twelve months are included in the earliest time band regardless of the probability of the directors choosing to exercise their rights.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate %	Repayable on demand/ less than 1 month RMB'000	1-3 months RMB'000	4 months to 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
<b>As at 31 December 2022</b>									
<i>Non-derivative financial liabilities</i>									
Trade, bills and other payables	-	345,585	-	-	-	-	-	345,585	345,585
Amounts due to directors	-	3,050	-	-	-	-	-	3,050	3,050
Borrowings	5.93	45,240	191,959	883,622	228,221	291,540	173	1,640,755	1,516,105
		393,875	191,959	883,622	228,221	291,540	173	1,989,390	1,864,740
Lease liabilities	4.40	330	195	504	232	696	2,680	4,637	3,711
<b>As at 31 December 2021</b>									
<i>Non-derivative financial liabilities</i>									
Trade, bills and other payables	-	294,388	-	-	-	-	-	294,388	294,388
Amounts due to directors	-	21,200	-	-	-	-	-	21,200	21,200
Borrowings	6.25	8,035	50,587	824,860	233,850	175,209	52,928	1,345,469	1,229,630
		323,623	50,587	824,860	233,850	175,209	52,928	1,661,057	1,545,218
Lease liabilities	4.90	314	207	767	334	696	2,912	5,230	3,832

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 37. FINANCIAL INSTRUMENTS (Continued)

#### (c) Fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate to their fair values at the end of the reporting period.

#### Fair value hierarchy as at 31 December 2022

	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Equity investments designated at FVTOCI:</b>			
Unlisted equity investments	–	1,768	1,768

Fair value hierarchy as at 31 December 2021

	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial assets at FVTPL:</b>			
Unlisted investments in trust funds	20	–	20
<b>Equity investments designated at FVTOCI:</b>			
Unlisted equity investments	–	2,275	2,275

In estimating the fair value, the Group uses market-observable data to the extent it is available. For investments with significant unobservable inputs under Level 3, the Group engages third party qualified valuer to perform the valuation. The management works closely with the qualified external valuer to establish the appropriate valuation techniques and inputs to the model.

The asset-based approach, which uses the fair market value of the unlisted equity investments' total assets minus total liabilities, is applied for the fair value estimation of the unlisted equity investments. The significant unobservable inputs in the approach included adjustment factors on market comparable assets and obsolescence rates applied for certain assets. Changes in these inputs, holding all other variables constant, do not have material impacts to the carrying amounts of the unlisted equity investments.

#### Reconciliation of Level 3 fair value measurements of the unlisted equity investments

	RMB'000
At 1 January 2021	–
Arising on the deemed disposal of subsidiaries (note 34)	2,255
Total gain in other comprehensive income	20
At 31 December 2021	2,275
Total loss in other comprehensive expense	(507)
At 31 December 2022	1,768

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

Reconciliation of liabilities arising from financing activities:

	Borrowings	Amounts due to directors	Lease liabilities	Dividend payables	Unclaimed dividends	Interest payables	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	959,880	–	3,324	–	–	–	963,204
Financing cash flows (Note)	286,359	21,200	(985)	(48,447)	–	(64,444)	193,683
Non-cash changes:							
Dividend declared	–	–	–	49,022	–	–	49,022
Interest expenses	–	–	164	–	–	56,199	56,363
Finance costs capitalised	–	–	–	–	–	8,245	8,245
Addition modification	–	–	1,355	–	–	–	1,355
Disposal of subsidiaries	(16,609)	–	–	–	–	–	(16,609)
Foreign exchange translation	–	–	(26)	–	–	–	(26)
Reclassification to unclaimed dividends	–	–	–	(575)	575	–	–
At 31 December 2021	1,229,630	21,200	3,832	–	575	–	1,255,237
Financing cash flows (Note)	<b>622,815</b>	<b>(18,150)</b>	<b>(1,518)</b>	–	<b>(575)</b>	<b>(87,738)</b>	<b>514,834</b>
Non-cash changes:							
Interest expenses	–	–	<b>169</b>	–	–	<b>79,272</b>	<b>79,441</b>
Discounted bills expire	<b>(336,340)</b>	–	–	–	–	–	<b>(336,340)</b>
Finance costs capitalised	–	–	–	–	–	<b>8,466</b>	<b>8,466</b>
Addition modification	–	–	<b>1,163</b>	–	–	–	<b>1,163</b>
Foreign exchange translation	–	–	<b>65</b>	–	–	–	<b>65</b>
At 31 December 2022	<b>1,516,105</b>	<b>3,050</b>	<b>3,711</b>	–	–	–	<b>1,522,866</b>

Note: The cash flows for borrowings and amounts due to related parties above included the net amount of proceeds from and repayments to the relevant parties in the consolidated statement of cash flows.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Interests in subsidiaries	191,201	191,201
Amount due from a subsidiary	9,681	–
	<b>200,882</b>	191,201
CURRENT ASSETS		
Other receivables	161	144
Amount due from a subsidiary	–	8,861
Bank balances and cash	109	675
	<b>270</b>	9,680
CURRENT LIABILITIES		
Accrued expenses	614	538
Unclaimed dividends	–	575
Amounts due to subsidiaries	4,719	1,925
	<b>5,333</b>	3,038
NET CURRENT (LIABILITIES) ASSETS	<b>(5,063)</b>	6,642
NET ASSETS	<b>195,819</b>	197,843
CAPITAL AND RESERVES		
Share capital	4,999	4,999
Reserves (Note)	190,820	192,844
TOTAL EQUITY	<b>195,819</b>	197,843

Note:

The followings are the movements of the Company's reserves:

	Share premium RMB'000	Capital reserve RMB'000	Share-based payments reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2021	184,003	6,031	–	(4,944)	185,090
Profit and total comprehensive income for the year	–	–	–	53,241	53,241
Recognition of equity-settled share-based payments	–	–	3,535	–	3,535
Dividend recognised as distribution (note 12)	–	–	–	(49,022)	(49,022)
At 31 December 2021	<b>184,003</b>	<b>6,031</b>	<b>3,535</b>	<b>(725)</b>	<b>192,844</b>
Loss and total comprehensive expense for the year	–	–	–	(6,134)	(6,134)
Recognition of equity-settled share-based payments	–	–	4,110	–	4,110
At 31 December 2022	<b>184,003</b>	<b>6,031</b>	<b>7,645</b>	<b>(6,859)</b>	<b>190,820</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2022 and 2021 are as follows:

Name of subsidiaries	Place of incorporation/ operations	Issued and fully paid share capital	Attributable equity interest held by the Company		Principal activities
			2022	2021	
Huajin Investments Limited ( <i>Note a</i> )	British Virgin Islands	US\$300	100%	100%	Investment holding
Inter Consortium Holdings Limited	Hong Kong	HK\$161,534,566	100%	100%	Investment holding and trading of steel products and residuals
Huajin (Singapore) Pte. Ltd.	Singapore	US\$1,680,000	100%	100%	Trading of steel products and residuals
江門市華津金屬制品有限公司 (Jiangmen Huajin Metal Product Company Limited) ( <i>Note b</i> )	PRC	RMB178,404,000	100%	100%	Production and sales of steel products and residuals
江門市華睦五金有限公司 (Jiangmen Huamu Metals Company Limited) ( <i>Note b</i> )	PRC	RMB180,977,811	100%	100%	Production and sales of steel products and residuals

Notes:

- (a) Directly held by the Company. All other principal subsidiaries are indirectly held by the Company.
- (b) Foreign investment enterprises.

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

None of the subsidiaries had issued any debt securities at the end of the year.

## FINANCIAL SUMMARY

	Year ended 31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
RESULTS					
Revenue	2,909,265	2,162,605	2,847,751	5,293,037	<b>4,663,563</b>
Profit (loss) before taxation	9,263	25,676	40,251	77,040	<b>(197,418)</b>
Income tax (expense) credit	(2,968)	(7,296)	(3,833)	(15,001)	<b>32,119</b>
Profit (loss) for the year	6,295	18,380	36,418	62,039	<b>(165,299)</b>

	As at 31 December				
	2018 RMB'000	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000
ASSETS AND LIABILITIES					
Total assets	1,761,605	1,546,323	2,043,439	2,404,606	<b>2,796,767</b>
Total liabilities	1,175,650	1,012,328	1,473,026	1,817,623	<b>2,371,429</b>
Net assets	585,955	533,995	570,413	586,983	<b>425,338</b>
EQUITY					
Equity attributable to owners of the Company	585,955	533,995	570,413	586,983	<b>425,338</b>
Total equity	585,955	533,995	570,413	586,983	<b>425,338</b>