THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This Circular is issued by Hengxin Technology Ltd. (the "**Company**"). **If you are in any doubt** as to the action you should take, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser immediately.

If you have sold or transferred all your Shares in the capital of the Company, you should at once hand this Circular, the notice of the extraordinary general meeting (the "**EGM**") and attached proxy form to the purchaser or to the stockbroker or to the bank or to the agent through whom you effected the sale or transfer for onward transmission to the purchaser or transferee.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase, or subscribe for securities of the Company.

HENGXIN
TECHNOLOGY
亨鑫科技

HENGXIN TECHNOLOGY LTD.
亨鑫科技有限公司*

(carrying on business in Hong Kong as HX Singapore Ltd.)

(incorporated in Republic of Singapore with limited liability)

(Stock Code: 1085)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING EQUITY INTERESTS IN NANJING ZHANGYU AND SHANGHAI ZHANGYU; AND NOTICE OF THE EGM

Financial Adviser to the Company

邁時資本
MAXA CAPITAL

Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders

Gram Capital Limited
嘉林資本有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

A letter from the Board is set out from pages 8 to 22 of this circular. A letter from the Independent Board Committee is set out from pages 23 to 24 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 40 of this circular.

A notice convening the EGM to be held at Unit 08, 43/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong on 10 July 2024 (Wednesday) at 11:00 a.m. or any adjournment is set out from pages EGM-1 to EGM-2 of this circular. A form of proxy for use at the EGM is enclosed.

Whether or not you are able to attend the EGM, you are requested to complete and return the proxy form accompanying this circular in accordance with the instructions printed thereon appointing the chairman of the EGM as your proxy, to the Company's Principal Share Registrar in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd., at 1 Harbourfront Avenue, Keppel Bay Tower #14-07, Singapore 098632 (for Shareholders registered in Singapore), or to the Company's Branch Share Registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong (for Shareholders registered in Hong Kong) as soon as possible and in any event not later than forty-eight (48) hours before the time of the EGM (or at any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish and in such event, the form of proxy shall be deemed to be revoked.

25 June 2024

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"Acquisition"	the acquisition of the Sale Equity from the Vendors by the Purchaser pursuant to the terms and conditions of the Equity Purchase Agreement
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day excluding Saturdays, Sundays and statutory holidays in the PRC
"Company"	Hengxin Technology Ltd., a company incorporated in Republic of Singapore with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1085)
"Completion"	completions of the Acquisition in accordance with the Equity Purchase Agreement
"Completion Date"	a date which falls within three (3) days after the satisfaction or waiver (where applicable) of the conditions precedent set out in the Equity Purchase Agreement or such later date as may be agreed by the Vendors and the Purchaser
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	RMB522 million, being the consideration of the Acquisition
"Cosin Solar"	Cosin Solar Technology Co., Ltd. (浙江可勝技術股份有限公司), a company established under the PRC laws with joint stock limited liability. As at the Latest Practicable Date, Cosin Solar was owned as to (i) approximately 22.58% by Huzhou Yuri Enterprise Management Enterprise Partnership (Limited Partnership)* (湖州煜日企業管理合夥企業 (有限合夥)) ("**Huzhou Yuri**"), whose equity interest was owned as to approximately 93.34% by Mr. Jin Jianxiang and approximately 6.66% by 7 other shareholders (each held less than 10% equity interest of Huzhou Yuri); and (ii) approximately 77.42% by 37 other shareholders (each held less than 10% equity interest of Cosin Solar). Mr. Jin Jianxiang is a director of Zhejiang Zhongguang. As Zhejiang Zhongguang is an indirect non-wholly-owned subsidiary of the Company, Mr. Jin Jianxiang is a connected person of the Company at the subsidiary level
"Director(s)"	the director(s) of the Company

"EGM"	the extraordinary general meeting of the Company to be held for the Shareholders to, among other things, consider and, if thought fit, approve the transactions contemplated under the Equity Purchase Agreement
"Enlarged Group"	the Group as enlarged by the Target Group after the Acquisition
"Equity Purchase Agreement"	the conditional equity purchase agreement dated 20 May 2024 and entered into among the Purchaser, the Vendors and the Target Companies in respect of the Acquisition
"Fuju Zhongguang"	Ningbo Fuju Zhongguang Venture Capital Enterprise Partnership (Limited Partnership)* (寧波復聚中光創業投資合夥企業 (有限合夥)), a partnership established under the PRC laws with limited liability. As at the Latest Practicable Date, Fuju Zhongguang was owned as to (i) approximately 31.99% by Ningbo Fuju Kunsheng Venture Capital Enterprise Partnership (Limited Partnership)* (寧波復聚坤晟創業投資合夥企業(有限合夥)) ("**Fuju Kunsheng**"), which was owned by 17 shareholders (each held less than 30% of the equity interest of Fuju Kunsheng); (ii) approximately 28.25% by Cosin Solar; (iii) approximately 25.42% by Ningbo Funeng Venture Capital Enterprise Partnership (Limited Partnership)* (寧波復能創業投資合夥企業(有限合夥), which was owned as to approximately 99.01% by Huzhou Wuxing Husheng Investment Consulting Co., Ltd.* (湖州吳興湖盛投資諮詢有限責任公司) (which was 100% ultimate beneficially owned by Huzhoushi Wuxingqu State-owned Assets Supervision and Administration Services Centre) and approximately 0.99% by Zhejiang Fuju Investment Management Co., Ltd.* (浙江復聚投資管理有限公司); and (iv) approximately 14.34% by 3 other shareholders (each held less than 10% equity interest of Fuju Zhongguang). To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Fuju Zhongguang and its ultimate beneficial owners are Independent Third Parties
Gongqing City	Gongqing City Shengmei Investment Management Enterprise Partnership (Limited Partnership)* (共青城盛美投資管理合夥企業(有限合夥)), a partnership established under the PRC laws with limited liability. As at the Latest Practicable date, Gongqing City was owned as to 25% by Mr. Li Guofan, 25% by Mr. Hu Xinyan, 25% by Mr. Liu Haohua and 25% by Ms. Qiu Jihong. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Gongqing City and its ultimate beneficial owners are Independent Third Parties
"Group"	the Company and its subsidiaries from time to time

"Hangzhou Jingneng"	Hangzhou Jingneng Huichu Enterprise Management Enterprise Partnership (Limited Partnership)* (杭州淨能慧儲企業管理合夥企業(有限合夥)), a partnership established under the PRC laws with limited liability. As at the Latest Practicable Date, Hangzhou Jingneng was owned as to 90% by Mr. Ye Jing, who is an Independent Third Party, and 10% by Mr. Jin Jianxiang, who is a connected person of the Company at the subsidiary level
"Heli Qinghai"	Heli (Qinghai) Operation and Maintenance Technology Co., Ltd* (和力(青海)運維技術有限公司), a company established under the PRC laws with limited liability and is an indirect non-wholly-owned subsidiary of Nanjing Zhangyu. As at the Latest Practicable Date, Heli Qinghai was wholly owned by Zhejiang Zhongguang
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Independent Board Committee"	the independent committee of the Board formed by the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on the terms of the Equity Purchase Agreement and the transactions contemplated thereunder
"Independent Financial Adviser" or "Gram Capital"	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Independent Shareholders"	shareholders who do not have any material interest in the transaction under the Equity Purchase Agreement, namely the Shareholders other than Mr. Peng Yinan, Mr. Bai Yuanliao and their associates
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which, as far as the Directors are aware after having made all reasonable enquiries, is/are not a connected person(s) of the Company within the meaning of the Listing Rules
"Independent Valuer"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent professional valuer to appointed to appraise the valuation of 100% equity interest of the Target Companies as at 31 December 2023
"Latest Practicable Date"	21 June 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Longkong Zhongguang"	Hangzhou Longkong Zhongguang Enterprise Holding Enterprise Partnership (Limited Partnership)* (杭州龍控中光企業控股合夥企業(有限合夥)), a partnership established under the PRC laws with limited liability and a direct non-wholly-owned subsidiary of Nanjing Zhangyu. As at the Latest Practicable Date, Longkong Zhongguang was owned as to approximately 87.67% by Nanjing Zhangyu and approximately 12.33% by Cosin Solar
"Nanjing Zhangyu"	Nanjing Zhangyu Information Technology Co., Ltd* (南京掌御信息科技有限公司), a company established under the PRC laws with limited liability and an indirect non-wholly-owned subsidiary of the Company
"Nanjing Zhangyu Group"	Nanjing Zhangyu Group and its subsidiaries from time to time
"Original Zhangyu Group"	collectively, Nanjing Zhangyu, Shanghai Zhangyu, Wuxi Sihai and SZSC
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Previous Equity Purchase Agreement"	the conditional equity purchase agreement entered into between the Purchaser and Xuzhou Jinkan in relation to the acquisition of the 51% equity interest in each of the Target Companies on 5 May 2022
"Purchaser" or "Xin Ke Xin"	Xin Ke Xin (Suzhou) Technology Co., Ltd.* (鑫科芯(蘇州)科技有限公司), a company established under the PRC laws with limited liability and an indirect wholly-owned subsidiary the Company
"Qinghai Solar"	Qinghai Zhongkong Solar Power Co., Ltd.* (青海眾控太陽能發電有限公司), a company established under the PRC laws with limited liability and an indirect non-wholly-owned subsidiary of Nanjing Zhangyu. As at the Latest Practicable Date, Qinghai Solar was wholly owned by Zhongguang Qinghai
"Qinghai Zhongkong"	Qinghai Zhongkong Solar Energy Generation Co., Ltd.* (青海中控太陽能發電有限公司), a company established under the PRC laws with limited liability and an indirect non-wholly-owned subsidiary of Nanjing Zhangyu. As at the Latest Practicable Date, Qinghai Zhongkong was wholly owned by Zhejiang Zhongguang

"RMB"	Renminbi, the lawful currency of the PRC
"Sale Equity"	49% equity interest in Nanjing Zhangyu and 49% equity interest in Shanghai Zhangyu
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Gaolai"	Shanghai Gaolai Management Consulting Partnership (Limited Partnership)* (上海皋萊管理諮詢合夥企業(有限合夥)), a partnership established under the PRC laws with limited liability which is principally engaged in investment holding
"Shanghai Longyuan"	Shanghai Longyuan Culture Media Co., Ltd.* (上海龍垣文化傳媒有限公司), a company established under the PRC laws with limited liability. As at the Latest Practicable Date, Shanghai Longyuan was owned as to 95% by Mr. Gao Xi, who is an Independent Third Party, and 5% by Mr. Peng Yinan
"Shanghai Zhangyu"	Shanghai Zhangyu Information Technology Co., Ltd.* (上海掌御信息科技有限公司), a company established under the PRC laws with limited liability and an indirect non-wholly-owned subsidiary of the Company
"Shanghai Zhangyu Group"	Shanghai Zhangyu Group and its subsidiaries from time to time
"Shareholder(s)"	shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subject Companies"	collectively, Nanjing Zhangyu, Shanghai Zhangyu, Wuxi Sihai and Zhejiang Zhongguang
"substantial shareholder(s)"	has the same meaning as given to it under the Listing Rules
"SZSC"	Shanghai Zhangyu Semiconductor Co., Ltd.* (上海掌御半導體有限公司), a company established under the PRC laws with limited liability and is a direct wholly-owned subsidiary of Shanghai Zhangyu
"Target Companies"	collectively, Nanjing Zhangyu and Shanghai Zhangyu
"Target Group"	Target Companies and their subsidiaries from time to time

"Transaction Documents"	collectively, the Equity Purchase Agreement, the articles of association of the Target Companies (if required by the Purchaser) and other agreements or documents relating to the Acquisition
"Vendors"	Xuzhou Jinkan and Mr. Bai Yuanliao
"Wuxi Sihai"	Wuxi Sihai Technology Co., Ltd* (無錫思海科技有限公司), a company established in the PRC with limited liability and a direct non-wholly-owned subsidiary of Nanjing Zhangyu. As at the Latest Practicable Date, Wuxi Sihai was owned as to 90% by Nanjing Zhangyu and 10% by Mr. Xie Qin, who is an Independent Third Party
"Xuzhou Jinkan"	Xuzhou Jinkan Management Consulting Partnership (Limited Partnership)* (徐州錦瞰管理諮詢合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
"Zhejiang Zhongguang"	Zhejiang Zhongguang New Energy Technology Co., Ltd.* (浙江中光新能源科技有限公司), a company established under the PRC laws with limited liability and an indirect non-wholly-owned subsidiary of Nanjing Zhangyu. As at the Latest Practicable Date, Zhejiang Zhongguang was owned as to 51% by Longkong Zhongguang, approximately 28.86% by Fuju Zhongguang, approximately 16.28% by Hangzhou Jingneng, approximately 3.86% by Shanghai Longyuan
"Zhejiang Zhongguang Group"	Zhejiang Zhongguang and its subsidiaries from time to time

"Zhongguang Electric"	Hangzhou Zhongguang Electric Power Engineering Co., Ltd.* (杭州中光電力工程有限公司), a company established under the PRC laws with limited liability and an indirect non-wholly-owned associated company of Nanjing Zhangyu. As at the Latest Practicable Date, Zhongguang Electric was owned as to (i) 30% by Jiangxi Jiusheng International Electric Power Engineering Co., Ltd.* (江西久盛國際電力工程有限公司)("**Jiangxi Jiusheng**"), whose equity was owned as to approximately 90% by Gongqing City and 10% by 3 other shareholders (each held less than 10% equity interest of Jiangxi Jiusheng); (ii) 28% by Cosin Solar; (iii) 15% by Zhejiang Zhongguang; (iv) 15% by Ningbo Meishan Bonded Port District Shengli Guanglian Investment Management Partnership (Limited Partnership)* (寧波梅山保税港區盛利光聯投資管理合夥企業(有限合夥)), whose equity was owned as to approximately 99.5% by Jiangxi Jiusheng and approximately 0.5% by Mr. Hu Xinyan; and (v) 12% by Hangzhou Jingli Investment Management Partnership (Limited Partnership)* (杭州晶力投資管理合夥企業(有限合夥)), whose equity was ultimately wholly owned by Cosin Solar. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Zhongguang Electric and its ultimate beneficial owners are Independent Third Parties
"Zhongguang Qinghai"	Zhongguang (Qinghai) New Energy Technology Co., Ltd.* (中光(青海)新能源技術有限公司), a company established under the PRC laws with limited liability and an indirect non-wholly-owned subsidiary of Nanjing Zhangyu. As at the Latest Practicable Date, Zhongguang Qinghai was wholly owned by Zhejiang Zhongguang

Words importing the singular number shall include the plural number where the context admits and vice versa. Words importing the masculine gender shall include the feminine gender where the context admits. Reference to persons shall, where applicable, include corporations.

Any reference to a time of a day or date in this circular is a reference to Singapore time or date.

In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

HENGXIN TECHNOLOGY LTD.
亨鑫科技有限公司*

(carrying on business in Hong Kong as HX Singapore Ltd.)
(incorporated in Republic of Singapore with limited liability)
(Stock Code: 1085)

Directors:
Mr. Cui Wei *(Chairman and Non-Executive Director)*
Mr. Peng Yinan *(Executive Director)*
Dr. Song Haiyan *(Executive Director)*
Mr. Du Xiping *(Non-Executive Director)*
Ms. Zhang Zhong *(Non-Executive Director)*
Mr. Qian Ziyan *(Independent Non-Executive Director)*
Dr. Li Jun *(Independent Non-Executive Director)*
Mr. Pu Hong *(Independent Non-Executive Director)*

Registered office:
5 Tampines Central 1
#06-05 Tampines Plaza 2
Singapore 529541

Head office and principal place of business in Singapore:
5 Tampines Central 1
#06-05 Tampines Plaza 2
Singapore 529541

25 June 2024

To: The Shareholders of Hengxin Technology Ltd.

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING EQUITY INTERESTS IN NANJING ZHANGYU AND SHANGHAI ZHANGYU; AND NOTICE OF THE EGM

INTRODUCTION

Reference is made to the announcement of the Company dated 20 May 2023 in relation to the Acquisition. On 20 May 2024 (after trading hours of the Stock Exchange), the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendors and the Target Companies entered into the Equity Purchase Agreement pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendors have conditionally agreed to sell the Sale Equity, representing the remaining 49% equity interest in each of the Target Companies, at the Consideration of RMB522.0 million in cash.

The purpose of this circular is to provide you with, among others, (i) further information on the Acquisition; (ii) the letter of recommendation from the Independent Board Committee regarding the Equity Purchase Agreement and the transactions contemplated thereunder; (iii) the letter of advice from the Independent

Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Equity Purchase Agreement and the transactions contemplated thereunder; (iv) other information as required under the Listing Rules; and (v) a notice of the EGM.

THE EQUITY PURCHASE AGREEMENT

The principal terms of the Equity Purchase Agreement are summarized below:

Date

20 May 2024

Parties

(1) the Purchaser;

(2) the Vendors;

(3) Nanjing Zhangyu; and

(4) Shanghai Zhangyu

Equity interests to be acquired

Pursuant to the Equity Purchase Agreement, the Purchaser has conditionally agreed to purchase and the Vendors have conditionally agreed to sell the Sale Equity at the Consideration of RMB522 million. The Sale Equity represents 49% equity interest in each of the Target Companies as at the date of the Equity Purchase Agreement and immediately before the Completion.

As at the Latest Practicable Date, Xuzhou Jinkan held 49% equity interest in Nanjing Zhangyu and 39% equity interest in Shanghai Zhangyu, whereas Mr. Bai Yuanliao held 10% equity interest in Shanghai Zhangyu.

Consideration

The Consideration of RMB522,000,000, among which the consideration for 49% equity interest in Shanghai Zhangyu and Nanjing Zhangyu is RMB127,000,000 and RMB395,000,000 respectively, shall be payable by the Purchaser to the Vendors in cash in accordance with the following manner:

(i) RMB52,200,000, representing 10% of the Consideration (the "**First Instalment**"), shall be paid to Xuzhou Jinkan's designated account within 10 Business Days from the date of signing of the Equity Purchase Agreement; and

(ii) RMB469,800,000, representing 90% of the Consideration, shall be paid to the Vendors' designated accounts within 5 Business Days after all conditions precedent set out in the Equity Purchase Agreement are fulfilled or waived (as the case may be) and the registration of the industrial and commercial change of Sale Equity by parties in relation to the Acquisition is completed (subject to the Target Companies obtaining the business licenses after the industrial and commercial change), among which the Purchaser shall pay approximately RMB443.9 million to Xuzhou Jinkan and approximately RMB25.9 million to Mr. Bai Yuanliao.

The Consideration payable by the Purchaser is referenced to the pro rata shareholding of the Vendors in the Sale Equity and will be satisfied by internal resources of the Group and bank borrowings. The bank borrowings to be obtained by the Purchaser and guaranteed by the Company amounted to approximately RMB313.2 million, representing 60% of the Consideration, and will be fully utilised for the payment of the Consideration. On 28 May 2024, the Purchaser completed the payment of the First Instalment.

Basis of the consideration

The Consideration was determined after arm's length negotiations between the parties to the Equity Purchase Agreement by taking into consideration of various factors, including but not limited to (i) the historical financial performance of the Target Companies; (ii) valuation reports prepared by an Independent Valuer on the 100% equity interest of the Target Companies with an aggregated market value of approximately RMB1,066.8 million as at 31 December 2023 (the "**Valuation Date**") under market approach, which is mainly based on Target Companies' financial performance for the year ended 31 December 2023 and the enterprise value-to-earnings before interest, taxes, depreciation and amortization ratios of the comparable companies; (iii) the business development opportunities and prospects of the Target Group; and (iv) the benefits to be derived by the Group upon Completion as described under the section headed "REASONS AND BENEFITS OF THE ACQUISITION" in this letter. For further details of the valuation report, please refer to Appendices VA and VB to this circular.

As disclosed in the valuation reports, as at the Valuation Date, Nanjing Zhangyu held 80% equity interest in Wuxi Sihai, and the market value of such equity interest was used in the valuation of Nanjing Zhangyu. In January 2024, Nanjing Zhangyu further acquired 10% equity interest of Wuxi Sihai (the "**Wuxi Sihai Acquisition**") from Mr. Xie Qin, who is an Independent Third Party, at a consideration of RMB8,037,000. Given (i) Wuxi Sihai is an insignificant subsidiary of the Company pursuant to Rule 14A.09 of the Listing Rules; and (ii) the highest applicable percentage ratio in respect of the Wuxi Sihai Acquisition does not exceed 5%, the Wuxi Sihai Acquisition does not constitute a connected transaction of the Company under Chapter 14A of the Listing Rules or a notifiable transaction of the Company under Chapter 14 of the Listing Rules.

The impact of the Wuxi Sihai Acquisition was not considered in the valuation of Nanjing Zhangyu since it took place after the Valuation Date. Taking into account the impact of the increased shareholding in Wuxi Sihai and the cash consideration paid for the Wuxi Sihai Acquisition, the adjusted valuation of Nanjing Zhangyu would be approximately RMB807.4 million, which is slightly higher than the valuation of Nanjing Zhangyu as shown in the valuation reports. Based on the above, the Board is of the view that the Wuxi Sihai Acquisition would have minor positive impact on the valuation of Nanjing Zhangyu and it is appropriate to use the valuation reports as one of the factors for determining the Consideration.

In respect of the adoption of control premium and discount for lack of control in the valuation reports, it was understood from the Independent Valuer that such mechanism was commonly used in the valuation to reflect the differences between the comparables and subject asset with regard to the ability to make decisions.

Having considered (i) the shareholdings structure of the Subject Companies; (ii) the group structure and diversity of business of the Target Companies; (iii) the methodology of the valuation as detailed in Appendices VA and VB to this circular; (iv) the minority equity interests to be acquired under the Acquisition; and (v) the qualification and independence of the Independent Valuer, the Board is of the view that the adoption of such mechanism in the valuation reports is reasonable.

Conditions Precedent

Completion is conditional upon fulfillment or waiver of, among other things, the following conditions precedent:

(i) the Transaction Documents have been duly executed, delivered and become effective; and each party signing the Transaction Documents have fulfilled has fulfilled the relevant procedures such as internal approvals and authorizations of the corresponding shareholders' meeting (or the sole shareholder) of the parties and their respective direct or indirect parent companies and the board of directors, approvals by competent authorities (if required), approvals by government authorities (if required) in accordance with its constitution and the requirements of applicable laws and regulations;

(ii) the representations and warranties made by the Vendors and the Target Companies in the Equity Purchase Agreement are true, accurate, complete and not misleading. The obligations, commitments and covenants set forth in the Equity Purchase Agreement which are to be performed by the Target Group or the Vendors on or before the Completion Date have been performed;

(iii) the Vendors have established a legal and valid account with a designated financial institution recognized by the Purchaser and the seal related to such account has been deposited with the Purchaser or Purchaser's designated third party or joint custody and the supervisory measures are approved by the Purchaser;

(iv) Xuzhou Jinkan and Mr. Bai Yuanliao as shareholders of Shanghai Zhangyu have consented to the Acquisition in writing and agreed to waive their pre-emptive rights, and such written consents are recognized by the Purchaser;

(v) the Vendors have reached a written agreement with the Purchaser regarding the relevant entities under the Target Group, including Shanghai Zhangyu, SZSC, Nanjing Zhangyu and Wuxi Sihai, Longkong Zhongguang, Zhejiang Zhongguang, Heli Qinghai, Zhongguang Qinghai, Qinghai Zhongkong and Qinghai Solar in relation to the removal, assignment and/or arrangement of the legal representatives, the board of directors (and directors), the board of supervisors (and supervisors) and senior management of each entity after the Acquisition;

(vi) the Target Group has entered into labor contracts, confidentiality agreements, intellectual property rights vesting agreements and non-competition agreements with all key employees and the Vendors on the terms and conditions approved by the Purchaser;

(vii) the Target Companies and its shareholders have executed all necessary written documents for the purpose of filing the change of registration with the competent registration authority for the Acquisition in form and substance satisfactory to the Purchaser;

(viii) the absence of one or more events (including the absence of any event of default under the Equity Purchase Agreement) prior to the Completion Date that would have a material adverse effect and no evidence of the occurrence of such event(s) that could have a material adverse effect;

(ix) the Vendors have sent to the Purchaser a notice of payment containing information about the Vendors' designated collection accounts in accordance with the relevant agreement;

(x) the Purchaser has applied for and obtained the approval for bank borrowings and the Purchaser has provided the Vendors with the relevant approval documents;

(xi) the Vendor and the Target Companies have delivered a completion satisfaction letter in the form as specified in the Equity Purchase Agreement confirming the conditions precedent set out in the Equity Purchase Agreement have been satisfied or waived;

(xii) Xuzhou Jinkan has completed the procedures to cancel the registrations for each of the pledge of 39% equity of Shanghai Zhangyu and the pledge of 49% equity of Nanjing Zhangyu; and

(xiii) the Company has obtained Independent Shareholders' approval of the Equity Purchase Agreement and the transactions contemplated thereunder at its general meeting.

Condition precedent (x) was included as one of the conditions precedent under the Equity Purchase Agreement to secure the availability of funding for the payment of Consideration before the Completion without affecting the planning of the Group's usage of internal funding. In the event that condition precedent (x) is not fulfilled within 3 months after the date of the Equity Purchase Agreement, condition precedent (x) shall be deemed to be waived by the Vendors if the Vendors and the Purchaser are able to agree on the payment arrangement. If the condition precedent (x) is not deemed to be waived by the Vendors, Completion will not take place and the Equity Purchase Agreement shall be terminated in accordance with the terms therein. Save for the condition precedent (xiii) above which could not be waived and the condition precedent (x) which could be waived by the Vendors, all other conditions precedent could be waived by the Purchaser.

As at the Latest Practicable Date, save and except for conditions precedent (iv), (vi), (ix) (to the extent it relates to the account for the First Instalment) and (xii), no other conditions precedent had been fulfilled or waived.

Completion

The Completion shall take place on the Completion Date upon all conditions set out in the Equity Purchase Agreement are satisfied or waived (as the case may be).

Upon the Completion, the Company will indirectly own the entire equity interest of the Target Companies; each of the Target Companies will become an indirect wholly-owned subsidiary of the Company; and the financial statements of every company in the Target Group will continue to be consolidated into the financial statements of the Group.

INFORMATION ABOUT THE PARTIES TO THE EQUITY PURCHASE AGREEMENT

Information of the Group and the Company

The Company is an investment holding company. The Group is principally engaged in the provision of digital technology and digital security products and services, the provision of new energy and services and the provision of telecommunications products and services.

Information of the Purchaser

The Purchaser is a company established under the PRC laws with limited liability and its principal activity is investment holding. As of the Latest Practicable Date, the Purchaser was an indirect wholly-owned subsidiary of the Company.

Information of the Target Companies

Nanjing Zhangyu is a company established under the PRC laws with limited liability and principally engaged in the development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software, as well as technology consultation and technology services. As at the Latest Practicable Date, Nanjing Zhangyu was held as to 51% indirectly by the Company and 49% directly by Xuzhou Jinkan.

As at the Latest Practicable Date, Wuxi Sihai, Qinghai Zhongkong, Qinghai Solar, Zhongguang Qinghai, Zhejiang Zhongguang, Longkong Zhongguang were the major operating subsidiaries of Nanjing Zhangyu, of which (i) Wuxi Sihai is principally engaged in chip design and mass production services and system integration services; (ii) Qinghai Zhongkong, Qinghai Solar and Zhongguang Qinghai are principally engaged in the supply of electricity with a focus on the production and sales of solar power as well as the provision of development consultation and technical services of the solar thermal power generation technology; (iii) Zhejiang Zhongguang is principally engaged in provision of related technical and consultancy services; and (iv) Longkong Zhongguang is principally engaged in investment holding.

Shanghai Zhangyu is a company established under the PRC laws with limited liability and principally engaged in the provision of cyber security and software solution in the financial sector. As at the Latest Practicable Date, Shanghai Zhangyu was held as to 51% indirectly by the Company, 39% directly by Xuzhou Jinkan and 10% by Mr. Bai Yuanliao[1].

Set out below are the financial information of the Target Companies for the years ended 31 December 2022 and 2023, which were prepared in accordance with International Financial Reporting Standards:

[1] On 6 May 2022, Mr. Bai Yuanliao entered into an equity transfer agreement, pursuant to which Mr. Bai Yuanliao agreed to acquire 10% equity interest of Shanghai Zhangyu from XinXi (Ningbo) Equity Investment Partnership (Limited Partnership)* (鑫壐(寧波)股權投資合夥企業(有限合夥)). At that time, Mr. Peng Yinan waived his pre-emptive rights for this equity transfer, while the Company had no pre-emptive right in this regard as the First Acquisition (as defined below) has not yet been completed.

Nanjing Zhangyu

	For the year ended 31 December 2023 *RMB'000* (audited)	For the year ended 31 December 2022 *RMB'000* (audited)
Profit before taxation	71,315	39,216
Profit after taxation	61,432	36,260

Based on the audited consolidated financial statement of Nanjing Zhangyu, the net assets of Nanjing Zhangyu as at 31 December 2023 were approximately RMB865,532,000.

Shanghai Zhangyu

	For the year ended 31 December 2023 *RMB'000* (audited)	For the year ended 31 December 2022 *RMB'000* (audited)
Profit before taxation	19,890	6,503
Profit after taxation	17,218	6,389

Based on the audited consolidated financial statement of Shanghai Zhangyu, the net assets of Shanghai Zhangyu as at 31 December 2023 were approximately RMB21,004,000.

Information of the Vendors

Xuzhou Jinkan is a limited partnership established under the laws of the PRC and its principal activity is investment holding. As at the Latest Practicable Date, the equity interest in Xuzhou Jinkan was owned as to 99% by Shanghai Gaolai (as the limited partner) (which was in turn held as to approximately 99% by Mr. Peng Yinan and 1% by Mr. Gao Xi) and 1% by Mr. Xu Huigeng (as the general partner). Mr. Gao Xi and Mr. Xu Huigeng are Independent Third Parties.

Mr. Bai Yuanliao is an individual who is a PRC resident. As at the Latest Practicable Date, Mr. Bai Yuanliao did not possess any role in the Target Companies other than being the shareholder of Shanghai Zhangyu.

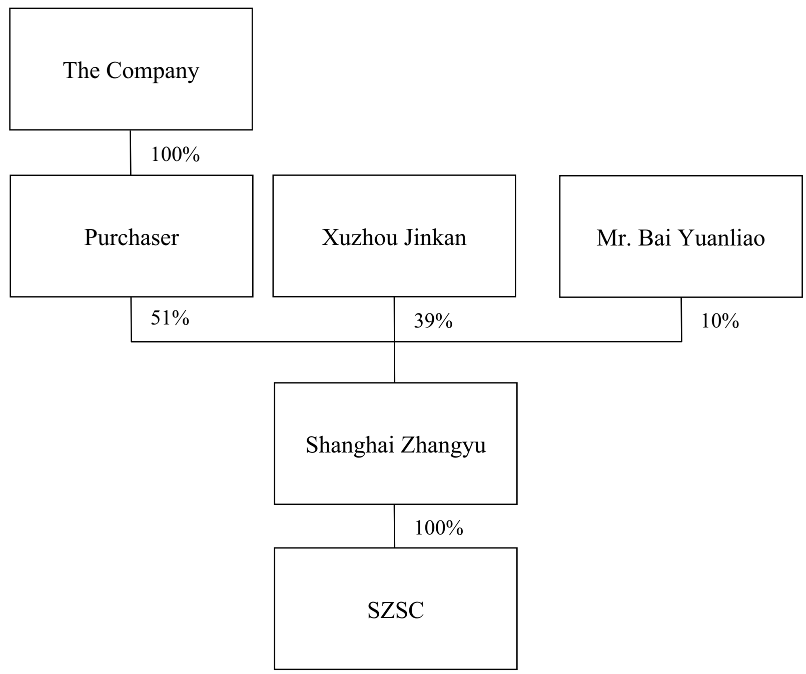
As at the Latest Practicable Date, the Company had no intention to appoint Mr. Gao Xi, Mr. Xu Huigeng and Mr. Bai Yuanliao as Directors.

Mr. Peng Yinan is the founder of the Target Companies. The original acquisition cost of the 10% equity interest of Shanghai Zhangyu to Mr. Bai Yuanliao was approximately RMB1,000,000, and it was completed on 6 May 2022.

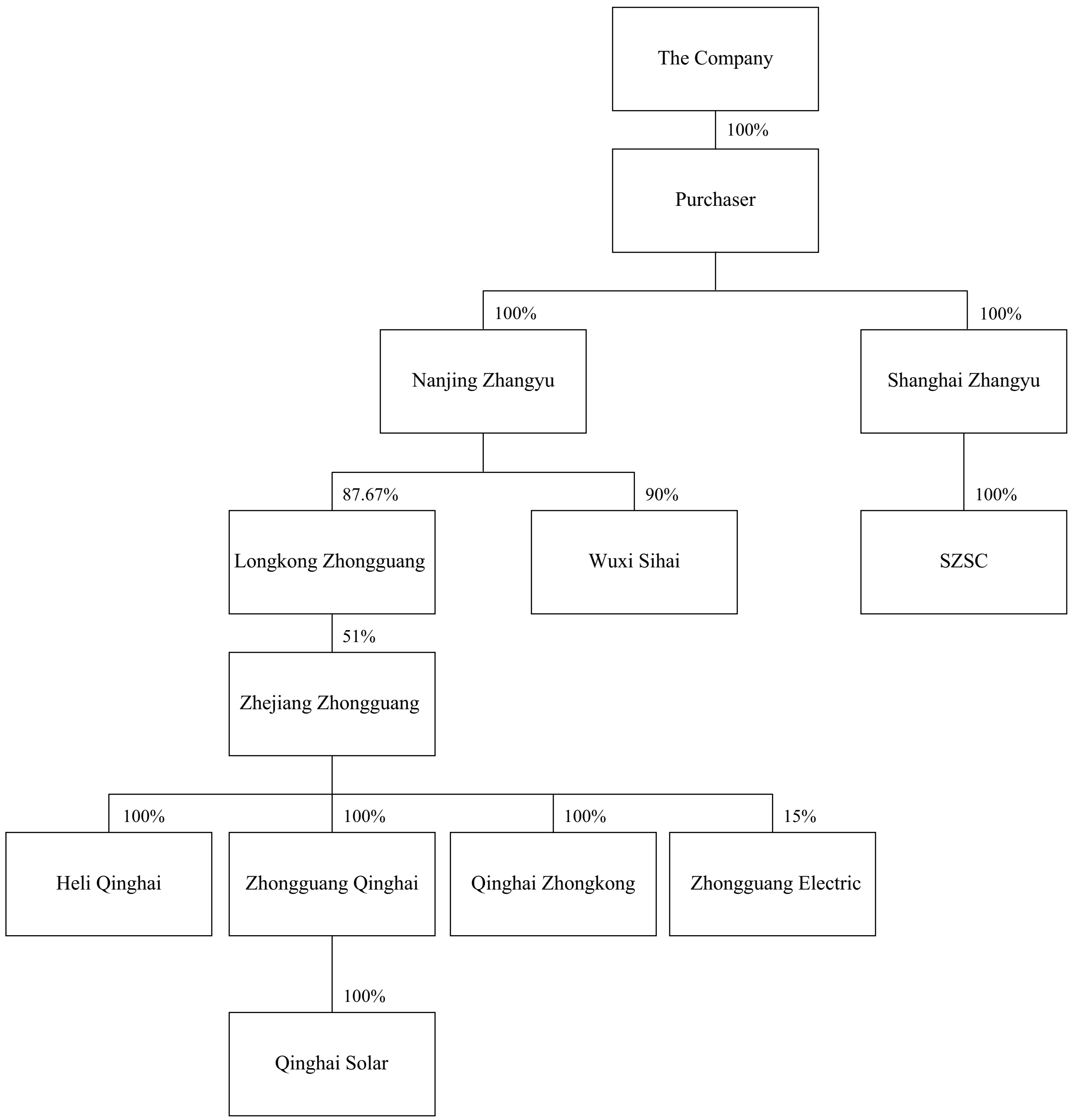
CHANGES IN THE SHAREHOLDING STRUCTURE OF THE TARGET COMPANIES

As at the Latest Practicable Date, the simplified shareholding structure of Nanjing Zhangyu was as follows:

As at the Latest Practicable Date, the simplified shareholding structure of Shanghai Zhangyu was as follows:



Immediately after the completion of the Acquisition, the simplified shareholding structure of the Target Companies will be as follows:



REASONS FOR AND BENEFITS OF THE ACQUISITION

On 5 May 2022, the Company announced the acquisition of 51% equity interest in each of the Target Companies at the consideration of RMB255 million (the "**First Acquisition**"), which was subsequently completed on 19 July 2022. Following the completion of the First Acquisition, the Company has formed the digital technology and digital security business segment, which is primarily operated by Nanjing Zhangyu, Shanghai Zhangyu, and Wuxi Sihai. It was the Company's business decision not to acquire the remaining equity interest at that time to effectively utilise the financial resources of the Group and control the potential risks which may arise from such acquisition, and to review any further investment in the Target Companies after the fulfilment of the profit guarantee under the First Acquisition. On 31 May 2023, the Company announced the acquisition of 51% equity interest in Zhejiang Zhongguang through Nanjing Zhangyu at the consideration of approximately RMB731 million (the "**Second Acquisition**"), which was subsequently completed on 21 July 2023. Thereafter, the Company has formed the new energy and service business segment, which is primarily operated by Qinghai Zhongkong, Qinghai Solar, Zhongguang Qinghai, Zhejiang Zhongguang and Longkong Zhongguang. The aforementioned acquisitions are strategic actions made by the Company to diversify its business segments and broaden the income stream, thereby countering the intense competition within the telecommunications industry.

Following the above two acquisitions, the Target Companies have been growing rapidly. As disclosed in the annual report of the Company for the year ended 31 December 2023 ("**2023 Annual Report**"), the digital technology and digital security business segment contributed a revenue of approximately RMB202.7 million for the year ended 31 December 2023, representing a significant increase in revenue of approximately RMB108.5 million or 115.1% as compared to the previous year after the completion of the First Acquisition in July 2022, whereas the new energy and service business segment contributed a revenue of approximately RMB77.1 million in the second half of 2023 after the completion of the Second Acquisition in July 2023. For the year ended 31 December 2023, the digital technology and digital security business segment and the new energy and service business segment have achieved a gross profit margin of 41.7% and 61.8%, respectively, while the telecommunications business segment achieved a gross profit margin of approximately 15.3%. Due to continuous fierce market competition in relation to the Group's telecommunications business, it is vital for the Group to further strengthen its digital technology and digital security business and new energy and services business (collectively known as the "**Zhangyu Related Businesses**") with higher gross profit margins.

In order to facilitate the development and operation of the Target Companies, (i) the Purchaser has granted two loans, with the principal amount of RMB40,000,000 and RMB210,000,000, and an interest rate of 4.9% per annum to Nanjing Zhangyu, details of which can be referred to the circular of the Company dated 11 April 2024; and (ii) the Company has raised net proceeds of approximately HK$72.6 million from the placing that completed on 13 May 2024, approximately 30% of which will be used for the development and expansion of the digital technology and digital security business and new energy and services business. As at the Latest Practicable Date, the Company had not utilised any net proceeds from the placing in the Target Companies, which is expected to be fully utilised by end of 2025. Save as disclosed above, the Company did not make any equity investment in or provide financing to the Target Companies subsequent to the First Acquisition.

Having considered that (i) the digital technology and digital security business is expected to be continually benefited from the supportive policies released by the PRC government, such as the "Guideline on the Global Layout for Digital China Construction" (數字中國建設整體佈局規劃) issued by the Central Committee of the Communist Party of China and the State Council, which greatly promote the digital construction in China; (ii) the PRC government has been advocating for the adoption of renewable energy by releasing supportive policies and plans, such as the 14th Five Year Plan for Renewable Energy, which targets a 50% increase in renewable energy generation from 2020 to 2025; (iii) the growth of the Target Companies in terms of financial performance and business scale since the First Acquisition; (iv) the new business opportunities would arise from the Zhangyu Related Businesses based on the continuous capital investments by the Group in respect of the research and developments and business development of the

Target Group; (v) as at the Latest Practicable Date, saved for the proceeds from the placing as mentioned above for the development and expansion of the digital technology and digital security business and new energy and services business and without any exceptional and unforeseeable circumstances, it was expected no further capital investment will be made into the Target Companies based on the existing business planning; (vi) the profit guarantee by the Target Companies in accordance with the Previous Equity Purchase Agreement has been fulfilled (i.e., the aggregate audited net profit after tax (excluding non-recurring income) of Original Zhangyu Group for the year ended 31 December 2022 was no less than RMB40 million and the aggregate audited net profit after tax (excluding non-recurring income) of Original Zhangyu Group for the two years ended 31 December 2022 and 31 December 2023 was no less than RMB115 million); (vii) the Consideration is lower than the market value of the 49% equity interest of the Target Companies as indicated in the valuation reports; (viii) the interest rate of 3.95% per annum for the bank borrowings to be obtained for the Acquisition is within the range of interest rates of the Group's bank loans as at 31 December 2023; and (ix) after taking into consideration of the financial costs of the Acquisition, the Acquisition would still have positive financial effect on the profit attributable to equity shareholders of the Company as shown in Appendix IV to this circular, the Board is of the view that the Consideration is fair and reasonable while the Acquisition is an important and pivotal move that aligns with the Group's long-term business development strategy and asset allocation strategy to further strengthen the business layout in the Zhangyu Related Businesses and it is expected the Acquisition would have a positive and crucial impact on the Group's future development and the sustainability of profitability.

As at the Latest Practicable Date, the Company indirectly held 51% equity interest in each of the Target Companies, and upon completion of the Acquisition, the Target Companies will become indirect wholly-owned subsidiaries of the Company. The Board is of the view that the Acquisition will also allow the Group to gain full control over the management and operations of the Target Companies, simplify the decision-making process and enable the Company to implement strategic plans that are consistent with the Company's business objectives in a timely manner. Furthermore, once the Target Companies become wholly-owned subsidiaries of the Company upon the Completion, the Company would also be able to streamline the regulatory reporting and approval procedures, resulting in cost savings related to connected transactions involving the Target Companies, and hence improve the efficiency of operation.

As at the Latest Practicable Date, the Company had (i) no plan to change the composition of the Board after the Acquisition; and (ii) no intention, arrangement, agreement, understanding or negotiation to downsize or dispose of the existing telecommunication business of the Group. The Company will continue to monitor and review the Group's business and operations from time to time, and may take steps that it deems necessary or appropriate to optimise the value of the Group. The Equity Purchase Agreement was arrived at after arm's length negotiations between the parties.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the Acquisition is on normal commercial terms, fair and reasonable, and in the interest of the Company and the Shareholders as a whole. As Mr. Peng Yinan has a material interest in the Acquisition, he abstained from voting on the relevant resolution of the Board approving the Acquisition.

FINANCIAL EFFECTS OF THE ACQUISITION

Upon Completions, the Company will hold the entire equity interest of the Target Companies indirectly through the Purchaser, and the financial statements of every company in the Target Group will continue to be consolidated into the financial statements of the Group.

According to the 2023 Annual Report, the Group recorded a profit attributable to equity shareholders of the Company of approximately HK$69.7 million for the year ended 31 December 2023. For illustrative purposes, based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming the Acquisition had been taken place on 1 January 2023, the profit attributable to equity shareholders of the Company would increase by approximately RMB8.3 million to approximately RMB78.0 million.

According to the 2023 Annual Report, the audited consolidated total assets and total liabilities of the Group as at 31 December 2023 were approximately HK$4,247.8 million and HK$1,509.2 million, respectively. For illustrative purposes, based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to this circular, assuming the Acquisition had been completed as at 31 December 2023, the Group's total assets would decrease by approximately RMB211.1 million and the Group's total liabilities would increase by approximately RMB313.2 million.

The details of the financial effect of the Acquisition on the financial performance and financial position, for illustration purpose only, together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information are set out in Appendix IV to this circular.

LISTING RULES IMPLICATION

As the highest applicable percentage ratio in respect of the Acquisition is more than 100%, the Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and is therefore subject to the notification, announcement, circular and shareholder's approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Xuzhou Jinkan was ultimately owned as to approximately 99% by Mr. Peng Yinan, being an executive Director and a connected person of the Company under the Listing Rules. Accordingly, Xuzhou Jinkan is an associate of Mr. Peng Yinan and a connected person of the Company. As at the Latest Practicable Date, Mr. Bai Yuanliao, being a substantial shareholder of Shanghai Zhangyu, was a connected person of the Company at the subsidiary level. The Acquisition therefore also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on the Equity Purchase Agreement and the transactions contemplated thereunder.

Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

Set out on pages EGM-1 to EGM-2 is a notice convening the EGM to be held at Unit 08, 43/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong on 10 July 2024 (Wednesday) at 11:00 a.m. or any adjournment at which resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the transactions contemplated under the Acquisition.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the proxy form accompanying this circular in accordance with the instructions printed thereon appointing the chairman of the EGM as your proxy, to the Company's Principal Share Registrar in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd., at 1 Harbourfront Avenue, Keppel Bay Tower #14-07, Singapore 098632 (for Shareholders registered in Singapore), or to the Company's Branch Share Registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong (for Shareholders registered in Hong Kong) as soon as possible and in any event not later than forty-eight (48) hours before the time of the EGM (or at any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish and in such event, the form of proxy shall be deemed to be revoked.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, Mr. Peng Yinan, Mr. Bai Yuanliao and their associates did no hold any Share. Therefore, no Shareholders or their respective associates had any material interest in the transactions contemplated under the Equity Purchase Agreement. No Shareholder is required to abstain from voting on the resolution at the EGM. If Mr. Peng Yinan or Mr. Bai Yuanliao or any of their associates acquire any Share before the EGM, they will be required to abstain from voting on the resolution to approve the transactions contemplated under the Equity Purchase Agreement.

Pursuant to Article 59 of the Constitution of the Company and Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting of the Company must be taken by way of poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolution to be proposed at the EGM will be voted by way of poll by the Shareholders or the Independent Shareholders (as the case may be).

Mr. Peng Yinan, Mr. Bai Yuanliao and their associates, where applicable, will abstain from voting on the relevant resolution at the EGM.

RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that terms of the Equity Purchase Agreement are fair and reasonable and that although the Acquisition is not entered into in the ordinary and usual course of business of the Group, the Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution set out in the notice of EGM enclosed to this circular.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

As the Completion is conditional upon fulfilment or waiver (as the case may be) of the conditions precedent to the Equity Purchase Agreement, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the equity securities of the Company.

By Order of the Board
Hengxin Technology Ltd.
Cui Wei
Chairman

HENGXIN TECHNOLOGY LTD.
亨鑫科技有限公司*

(carrying on business in Hong Kong as HX Singapore Ltd.)
(incorporated in Republic of Singapore with limited liability)
(Stock Code: 1085)

25 June 2024

To: The Independent Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING EQUITY INTERESTS IN NANJING ZHANGYU AND SHANGHAI ZHANGYU; AND NOTICE OF THE EGM

We refer to the circular of the Company dated 25 June 2024 (the "**Circular**") of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the terms of the Equity Purchase Agreement are fair and reasonable and that the Acquisition is entered into in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the Equity Purchase Agreement and the advice of Gram Capital in relation to the Equity Purchase Agreement as set out on pages 25 to 40 of this Circular, we are of the opinion that the terms of the Equity Purchase Agreement are fair and reasonable and that although the Acquisition is not entered into in the ordinary and usual course of business of the Group, the Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Equity Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee

Mr. Qian Ziyan	**Dr. Li Jun**	**Mr. Pu Hong**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

* *For identification purpose only*

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

25 June 2024

To: The Independent Board Committee and the Independent Shareholders of Hengxin Technology Ltd.

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF THE REMAINING EQUITY INTEREST IN NANJING ZHANGYU AND SHANGHAI ZHANGYU

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 25 June 2024 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, on 20 May 2024 (after trading hours of the Stock Exchange), the Purchaser and the Vendors entered into the Equity Purchase Agreement pursuant to which the Purchaser conditionally agreed to acquire, and the Vendors have conditionally agreed to sell the Sale Equity, representing the remaining 49% equity interest in each of the Target Companies, at the Consideration of RMB522.0 million in cash.

With reference to the Board Letter, the Acquisition constitutes a very substantial acquisition and connected transaction for the Company under Chapter 14 and Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising Mr. Qian Ziyan, Dr. Li Jun, and Mr. Pu Hong, being all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Acquisition are on normal commercial terms and are fair and reasonable; (ii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of the business of the Group; and (iii) how the Independent

Shareholders should vote in respect of the resolution to approve the Acquisition at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in relation to (i) the continuing connected transaction as set out in the Company's circular dated 3 February 2023; (ii) the major and connected transactions as set out in the Company's circular dated 11 April 2024; and (iii) the duration of the continuing connected transaction as set out in the Company's announcement dated 22 April 2024. Save for the aforesaid engagements, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company with executed agreement during the past two years immediately preceding the Latest Practicable Date. Notwithstanding the aforesaid engagements, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Acquisition. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Target Companies or its subsidiaries, and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report on Nanjing Zhangyu as contained in Appendix VA (the "**NZ Valuation Report**") to the Circular and the valuation report on Shanghai Zhangyu as contained in Appendix VB to the Circular (the "**SZ Valuation Report**", together with the NZ Valuation Report, the "**Valuation Reports**"). The NZ Valuation Report and SZ Valuation Report were prepared by the Independent Valuer. Since we are not experts in the valuation of assets or business, we have relied solely upon the NZ Valuation Report for the market value of equity interest in Nanjing Zhangyu and SZ Valuation Report for the market value of equity interest in Shanghai Zhangyu, as at 31 December 2023 (the "**Valuation Date**").

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Vendors, the Target Companies, or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Acquisition, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Company is an investment holding company. The Group is principally engaged in the provision of digital technology and digital security products and services, the provision of new energy and services and the provision of telecommunications products and services.

Set out below are the Group's audited consolidated financial information for the two years ended 31 December 2023 as extracted from the Company's annual report for the year ended 31 December 2023 (the "**2023 Annual Report**"):

	For the year ended 31 December 2022	For the year ended 31 December 2023	Change
	RMB'000	*RMB'000*	*Approximate %*
Revenue	2,039,583	2,255,903	10.61
– Digital technology and digital security	*94,218*	*202,671*	*115.11*
– New energy and services	*–*	*77,064*	*N/A*
– Telecommunications	*1,945,365*	*1,976,168*	*1.58*
Gross profit	375,525	434,698	15.76
Profit for the year attributable to equity shareholders of the Company	63,602	69,702	9.59

As depicted from the above table, the Group's revenue for the year ended 31 December 2023 ("**FY2023**") increased by approximately 10.61% as compared to that for the year ended 31 December 2022 ("**FY2022**"), mainly attributable to revenue generated from new energy and services segment (the "**New Energy Segment**") and increase in revenue from digital technology and digital security segment (the "**Digital Segment**"). Along with the aforesaid increase in the Group's revenue, the Group's gross profit for FY2023 also increased by approximately 15.76% as compared to that for FY2022.

Profit attributable to equity shareholders of the Company for FY2023 increased by approximately 9.59% as compared to that for FY2022. With reference to the 2023 Annual Report and as confirmed by the Directors, the aforesaid increase in profit attributable to equity shareholders of the Company was mainly attributable to increase gross profit and decrease in other operating expenses, as partially offset by impairment loss on trade receivables for FY2023 and increase in interest expense and income tax.

With reference to the 2023 Annual Report and as confirmed by the Directors:

(i) The Directors expected that the Digital Segment and the New Energy Segment will be able to gain favorable development opportunities from the PRC national policies.

(ii) In respect of the Digital Segment, the Group will endeavour to implement intelligent internet-of-things ("**IoT**") data privacy computing project plan and develop a recommendation system based on differential privacy. Through analyses on user data with privacy protection, the Group is committed to realizing specific information recommendations and thereby achieving models for cooperation in the fields of electricity, energy, medical and industrial IoT.

(iii) In respect of the New Energy Segment, the Group will continue to ensure continuous and stable operation and development of its solar thermal molten salt energy storage power plant projects and provision of operations and maintenance services using its leading technologies.

Information on the Purchaser

With reference to the Board Letter, the Purchaser (an indirect wholly-owned subsidiary of the Company) is a company established under the PRC laws with limited liability and its principal activity is investment holding.

Information on the Vendors

With reference to the Board Letter:

(i) Xuzhou Jinkan is a limited partnership established under the laws of the PRC and its principal activity is investment holding. As at the Latest Practicable Date, the interest in Xuzhou Jinkan is owned as to 99% by Shanghai Gaolai (as limited partner) (which is in turn held as to approximately 99% by Mr. Peng Yinan and 1% by Mr. Gao Xi) and 1% by Mr. Xu Huigeng (as general partner).

(ii) Mr. Bai Yuanliao is an individual who is a PRC resident.

Information of the Target Companies

With reference to the Board Letter:

(a) Nanjing Zhangyu is a company established under the PRC laws with limited liability and principally engaged in the development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software, as well as technology consultation and technology services. As at the Latest Practicable Date, Nanjing Zhangyu is held as to 51% indirectly by the Company and 49% directly by Xuzhou Jinkan. As at the Latest Practicable Date, Wuxi Sihai, Qinghai Zhongkong, Qinghai Solar, Zhongguang Qinghai, Zhejiang Zhongguang, Longkong Zhongguang are the major operating subsidiaries of Nanjing Zhangyu, of which (i) Wuxi Sihai is principally engaged in chip design and mass production services and system integration services; and (ii) Qinghai Zhongkong, Qinghai Solar and Zhongguang Qinghai are principally engaged in the supply of electricity with a focus on the production and sales of solar power as well as the provision of development consultation and technical services of the solar thermal power generation technology; (iii) Zhejiang Zhongguang is principally engaged in provision of related technical and consultancy services; and (iv) Longkong Zhongguang is principally engaged in investment holding.

(b) Shanghai Zhangyu is a company established under the PRC laws with limited liability and principally engaged in the provision of cyber security and software solution in the financial sector. As at the Latest Practicable Date, Shanghai Zhangyu is held as to 51% indirectly by the Company, 39% directly by Xuzhou Jinkan and 10% by Mr. Bai Yuanliao.

Further details of the Target Companies are set out in the sections headed "Information of the Target Companies" of the Board Letter.

Set out below are the audited consolidated financial information of Nanjing Zhangyu Group for the two years ended 31 December 2023 as extracted from Appendix IIA to the Circular:

	For the year ended 31 December 2022	For the year ended 31 December 2023	Change
	RMB'000	*RMB'000*	*Approximate %*
Revenue	132,538	235,984	78.05
– Digital technology and digital security	*132,538*	*158,920*	*19.91*
– New energy and services	–	*77,064*	*N/A*
Gross profit	58,429	126,545	116.58
Profit for the year	36,260	61,432	69.42

With reference to the "MANAGEMENT DISCUSSION AND ANALYSIS OF NANJING ZHANGYU GROUP" as contained in Appendix IIIA to the Circular and as confirmed by the Directors:

(i) Nanjing Zhangyu Group's revenue for FY2023 increased by approximately 78.05% as compared to that for FY2022. Such increase was mainly attributable to revenue contribution from the new energy and services business segment, which was formed after completion of acquisition of 51% equity interest in Zhejiang Zhongguang by Nanjing Zhangyu in July 2023 (the "**Zhejiang Zhongguang Acquisition**").

(ii) Nanjing Zhangyu Group's gross profit for FY2023 increased by approximately 116.58% as compared to that for FY2022 mainly due to gross profit contribution from the new energy and services business segment which was formed after completion of the Zhejiang Zhongguang Acquisition.

(iii) Nanjing Zhangyu Group's profit for FY2023 increased by approximately 69.42% as compared to that for FY2022 mainly due to increase in gross profit as partially offset by increase in administrative expense and interest expense.

Set out below are the audited consolidated financial information of Shanghai Zhangyu Group for the two years ended 31 December 2023 as extracted from Appendix IIB to the Circular:

	For the year ended 31 December 2022	For the year ended 31 December 2023	Change
	RMB'000	*RMB'000*	*Approximate %*
Revenue	15,413	43,751	183.86
– Digital technology and digital security	*15,413*	*43,751*	*183.86*
Gross profit	11,428	30,792	169.44
Profit for the year	6,389	17,218	169.49

With reference to the "MANAGEMENT DISCUSSION AND ANALYSIS OF SHANGHAI ZHANGYU GROUP" as contained in Appendix IIIB to the Circular and as confirmed by the Directors:

(i) Shanghai Zhangyu Group's revenue for FY2023 increased by approximately 183.86% as compared to that for FY2022. Such increase was mainly due to increase in operation size and diversity of products and services offered to customers.

(ii) Shanghai Zhangyu Group's gross profit for FY2023 increased by approximately 169.44% as compared to that for FY2022, generally corresponding with revenue increase.

(iii) Shanghai Zhangyu Group's profit for FY2023 also increased by approximately 169.49% as compared to that for FY2022 mainly due to increase in gross profit as partially offset by increase in administrative expenses, other operating expenses and income tax.

Reasons for and benefits of the Acquisition

Detailed reasons for and benefits of the Acquisition were set out under the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION" of the Board Letter. With reference to the Board Letter:

(i) The Digital Segment contributed a revenue of approximately RMB202.7 million for FY2023, representing a significant increase in revenue of approximately RMB108.5 million or 115.1% as compared to the previous year.

(ii) The New Energy Segment contributed a revenue of approximately RMB77.1 million in the second half of 2023, following the completion of the Zhejiang Zhongguang Acquisition in July 2023.

(iii) For FY2023, the Digital Segment and the New Energy Segment achieved gross profit margin of 41.7% and 61.8%, respectively, while the Group's telecommunications business segment achieved a gross profit margin of approximately 15.3%.

(iv) The Digital Segment is expected to be continually benefited from the supportive policies released by the PRC government.

(v) The Acquisition is an important and pivotal move that aligns with the Group's long-term business development strategy and asset allocation strategy to further strengthen the business layout in the Digital Segment and the New Energy Segment, with a positive and crucial impact on the Group's future development and the sustainability of profitability.

(vi) The Acquisition will also allow the Group to gain full control over the management and operations of the Target Companies, simplify the decision-making process and enable the Company to implement strategic plans that are consistent with the Company's business objectives in a timely manner.

(vii) Upon the Completion, the Company would also be able to streamline the regulatory reporting and approval procedures, resulting in cost savings related to connected transactions involving the Target Companies, and hence improve the efficiency of operation.

Industry overview

With reference to the 2023 Annual Report and as confirmed by the Directors, the Target Group is mainly engaged in (i) the Digital Segment, their services are mainly relating to chips and integrated circuits; and (ii) the New Energy Segment, their services and production are mainly relating to solar thermal power generation.

The Digital Segment

Set out below are the total production of integrated circuits in the PRC from 2019 to 2023 as published by the National Bureau of Statistics of the PRC:

	2019	2020	2021	2022	2023
Total production of integrated circuits in the PRC (thousand pieces)	201,822,000	261,423,000	359,435,000	324,185,172	351,440,000
Changes (%)		*29.53*	*37.49*	*(9.81)*	*8.41*

As shown in the above table, the total production of integrated circuits in the PRC increased from approximately 201.82 billion pieces in 2019 to approximately 359.44 billion pieces in 2021. Subsequently, the total production of integrated circuits in the PRC decreased to approximately 324.19 billion pieces in 2022 and recovered to approximately 351.44 billion pieces in 2023. The total production of integrated circuits in the PRC from 2019 to 2023 represented a compound annual growth rate ("**CAGR**") of approximately 14.87%.

In recent years, the PRC government issued various policies regarding the PRC integrated circuits market as set out below:

In July 2020, the State Council of the PRC issued《新時期促進積體電路產業和軟體產業高品質發展的若干政策》(Several Policies for Promoting High-quality Development of the Integrated Circuit and Software Industries in the New Era*), which outlined that the PRC government should promote the development of the integrated circuit and software industries, support the formation of industry clusters for information technology services and integrated circuits, and facilitate the specialized and high-end development of software industrial parks.

In December 2022, the Central Committee of the Chinese Communist Party and the State Council of the PRC collectively issued《擴大內需戰略規劃綱要(2022－2035年)》(Outline of the Strategy for Expanding Domestic Demand (2022-2035)*), which indicated that the PRC government should enhance the core competitiveness of the information technology industry, driving technological innovation and application in areas such as artificial intelligence, advanced communication, integrated circuits, cutting-edge display technologies, and advanced computing.

In August 2023, the Ministry of Industry and Information Technology of the PRC and the Ministry of Finance of the PRC collectively published《電子信息製造業2023-2024年穩增長行動方案》(Action Plan for Stable Growth in the Electronic Information Manufacturing Industry for 2023-2024*), which indicated that the PRC government should effectively mobilize various funds and social capital, expand investment opportunities, and systematically promote the commencement of major projects in key areas such as integrated circuits, new display technologies, communication devices, smart hardware, and lithium-ion batteries.

The New Energy Segment

Set out below is the cumulative installed capacity of solar thermal power generation in the PRC from 2019 to 2023 with reference to a report titled《中國太陽能熱發電行業藍皮書2023》(Blue Book of China's Solar Thermal Power Generation Industry 2023*) collectively published by China Solar Thermal Alliance (a national-level industry technology innovation strategic alliance led by the Institute of Electrical Engineering, Chinese Academy of Sciences, a national research institution in the field of electrical science and engineering technology in the PRC) and Solar Thermal Power Generation Professional Committee of the China Renewable Energy Society (a committee under the China Renewable Energy Society, a voluntary national, academic, and non-profit social organization composed of scientific and technological workers and relevant institutions engaged in research, development, and application of new energy and renewable energy. China Renewable Energy Society is registered in accordance with the law and subject to the guidance and supervision of the China Association for Science and Technology and the Ministry of Civil Affairs of the PRC).

	2019	**2020**	**2021**	**2022**	**2023**
Cumulative installed capacity of solar thermal power generation in the PRC (megawatt)	438	538	538	588	588
Changes (%)		*22.83*	–	*9.29*	–

As shown in the table above, the cumulative installed capacity of solar thermal power generation in the PRC increased from 438 megawatts in 2019 to 588 megawatts in 2022 with a CAGR of approximately 10.31%. Such installed capacity remained the same in 2023.

In recent years, the PRC government issued various policies regarding the PRC solar thermal power market as set out below:

In January 2022, the National Development and Reform Commission of the PRC and the National Energy Administration of the PRC collectively issued《關於完善能源綠色低碳轉型體制機制和政策措施的意見》(Opinions on Improving the Institutional Mechanisms and Policy Measures for Energy Green and Low-Carbon Transformation*), which outlined that the PRC government should enhance the construction and operational mechanisms for flexible power sources, leverage the regulating capabilities of solar thermal power generation, and improve the price compensation mechanisms supporting the operation of adjustable power sources such as solar thermal power generation and energy storage.

In April 2023, the National Energy Administration of the PRC issued《2023年能源工作指導意見》(Guiding Opinions on Energy Work in 2023*), which indicated that the PRC government should develop wind and solar power generation, actively promote the large-scale development of solar thermal power generation.

In September 2023, the National Energy Administration of the PRC published《關於組織開展可再生能源發展試點示範的通知》(Notice on Organizing Pilot Demonstrations for Renewable Energy Development *), which indicated that the PRC government should support the innovation and application of new technologies in solar thermal power generation, driving cost reduction, efficiency improvement, and the scaling up of solar thermal power development.

Having considered the potential prospects of the Digital Segment and the New Energy Segment as indicated above and the improved financial performance of the Target Companies as illustrated under the section headed "Information on the Target Companies" above, we are of the view that although the Acquisition is not conducted in the ordinary and usual course of business of the Company, it is in the interests of the Company and its Shareholders as a whole.

Principal terms of the Acquisition

Summarised below are the principal terms of the Acquisition under the Equity Purchase Agreement, details of which are set out in the Board Letter.

Date

20 May 2024

Parties

(i) the Purchaser;

(ii) the Vendors;

(iii) Nanjing Zhangyu; and

(iv) Shanghai Zhangyu

Equity interests to be acquired

The Purchaser conditionally agreed to purchase and the Vendors conditionally agreed to sell the Sale Equity at the Consideration of RMB522 million. The Sale Equity represents 49% equity interest in each of the Target Companies as at the date of the Equity Purchase Agreement and immediately before the Completion.

Consideration

The Consideration of RMB522,000,000, among which the consideration for 49% equity interest in Shanghai Zhangyu is RMB127,000,000 (the "**SZ Consideration**") and Nanjing Zhangyu is RMB395,000,000 ("**NZ Consideration**"), shall be payable by the Purchaser to the Vendors in cash in accordance with the following manner:

(i) RMB52,200,000, representing 10% of the Consideration (i.e. the First Instalment), shall be paid to Xuzhou Jinkan's designated account within 10 Business Days from the date of signing of the Equity Purchase Agreement; and

(ii) RMB469,800,000, representing 90% of the Consideration, shall be paid to the Vendors' designated account within 5 Business Days after all conditions precedent set out in the Equity Purchase Agreement are fulfilled or waived (as the case may be), and the registration of the industrial and commercial change of Sale Equity by parties in relation to the Acquisition is completed (subject to the Target Company obtaining the business license after the industrial and commercial change), among which the Purchaser shall pay approximately RMB443.9 million to Xuzhou Jinkan and approximately RMB25.9 million to Mr. Bai Yuanliao.

With reference to the Board Letter, the Consideration payable by the Purchaser is referenced to the pro rata shareholding of the Vendors in the Sale Equity and will be satisfied by internal resources of the Group and bank borrowings. The bank borrowings to be obtained by the Purchaser and guaranteed by the Company amounted to approximately RMB313.2 million, representing 60% of the Consideration, and will be fully utilised for the payment of the Consideration. With reference to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular (the "**Pro Forma FI**") and as confirmed by the Directors, the aforesaid bank borrowings will be unsecured, repayable within 4.5 years after drawdown and bear interest at 3.95% per annum (the "**Interest Rate**").

With reference to the 2023 Annual Report, as at 31 December 2023, the Group's unsecured bank loans carried interest at annual rates of 1.26% to 4.00%. As the Interest Rate is within the aforesaid interest rate range of the Group's unsecured bank loans, we consider the bank borrowings for satisfying part of the Consideration to be acceptable.

Basis of the Consideration

The Consideration was determined after arm's length negotiations between the parties to the Equity Purchase Agreement by taking into consideration various factors, including but not limited to (i) historical financial performance of the Target Companies; (ii) the Valuation Reports prepared by the Independent Valuer in respect of the 100% equity interest of the Target Companies with aggregated market value of approximately RMB1,066.8 million as at the Valuation Date under market approach; (iii) the business development opportunities and prospects of the Target Group; and (iv) the benefits to be derived by the Group upon Completion as described under the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION" of the Board Letter.

The Valuation Reports

According to the SZ Valuation Report, the market value of 100% equity interest in Shanghai Zhangyu was RMB260,056,000 as at the Valuation Date (the "**SZ Valuation**"), 49% of which was approximately RMB127,427,440. The SZ Consideration represents a slight discount to "49% of the SZ Valuation".

According to the NZ Valuation Report, the market value of 100% equity interest in Nanjing Zhangyu was RMB806,727,000 as at the Valuation Date (the "**NZ Valuation**"), 49% of which was approximately RMB395,296,230. The NZ Consideration represents a slight discount to "49% of the NZ Valuation".

As disclosed in the Valuation Report, as at the Valuation Date, Nanjing Zhangyu held 80% equity interest in Wuxi Sihai, and the market value of such equity interest was used in the NZ Valuation. With reference to the Board Letter, in January 2024, Nanjing Zhangyu further acquired 10% equity interest of Wuxi Sihai (i.e. Wuxi Sihai Acquisition) at a consideration of RMB8,037,000. The impact of the Wuxi Sihai Acquisition was not considered in the NZ Valuation as it took place after the Valuation Date. Taking into account the impact of the increased shareholding in Wuxi Sihai and the cash consideration paid for the Wuxi Sihai Acquisition, the adjusted valuation of 100% equity interest in Nanjing Zhangyu would be approximately RMB807.4 million, which would be slightly higher than the NZ Valuation. Based on the above, the Directors confirmed us that the Wuxi Sihai Acquisition would have minor positive impact on the valuation of 100% equity interest in Nanjing Zhangyu and it is appropriate to use the NZ Valuation as one of the factors for determining the NZ Consideration.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Independent Valuer with the Company; (ii) the Independent Valuer's qualification in relation to the preparation of the Valuation Reports; and (iii) the steps and due diligence measures taken by the Independent Valuer for conducting the Valuation Reports. From the mandate letter and other relevant information provided by the Independent Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Independent Valuer as well as their qualification for preparation of the Valuation Reports. The Independent Valuer also confirmed that they are independent to the Group, the parties to the Acquisition and the Target Group.

With reference to the Valuation Reports:

(i) In arriving the market value of 100% equity interest in the Target Companies, the Independent Valuer considered three generally accepted approaches, namely the market approach, income approach and cost approach.

(ii) The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

(iii) The cost approach considers the cost to reproduce or replace in new condition of the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

(iv) The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

(v) To select the most appropriate approach, the Independent Valuer considered the purpose of the valuation engagement and the resulting basis of value as well as the availability and reliability of information provided to them to form perform an analysis. The Independent Valuer also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Target Companies. In the Independent Valuer's opinion, the cost approach is inappropriate for valuing the Target Companies, as it does not directly incorporate information about the economic benefits contributed by the Target Companies. The income approach is not the most optimal approach as it involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained. The Independent Valuer therefore relied on the market approach in determining their opinion of value.

(vi) There are two common methods under the market approach, namely, guideline public companies method and guideline transaction method. Guideline public companies method requires identifying suitable guideline public companies and selection of appropriate trading multiples, while guideline transaction method takes reference to recent mergers and acquisitions transaction between unrelated parties and ratio of transaction price to Target's financial metrics. In this exercise, the market value of equity interest in the Target Companies was developed through the guideline public company method. The guideline transaction method is not adopted due to lack of sufficient recent market transactions with similar nature as the Target Companies. The guideline public company method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple.

(vii) By adopting the market approach, the Independent Valuer had to determine the appropriate valuation multiples of comparable companies, in which the Independent Valuer had considered price-to-earnings, price-to-book, price-to-sales, enterprise value-to-sales and enterprise value-to-earnings before interest, taxes, depreciation and amortization ("**EV/EBITDA**") multiples. The price-to-earnings multiples were not selected as it does not capture the financial leverage and other related risk feature across the Target Companies. The price-to-book multiples were not selected as it fails to capture the intangible company-specific competencies and advantages so in general, the equity's book value has little bearing with the Target Companies' fair value. The price-to-sales multiples and the enterprise value-to-sales multiples were not selected as they do not take into accountant the Target Companies' profitability. Therefore, the Independent Valuer adopted the EV/EBITDA multiples as the Independent Valuer considered it is suitable for profitable companies and can factor in differences in balance sheet positions between the Target Companies and the comparable companies.

We further reviewed and enquired into the Independent Valuer on the methodologies adopted and the basis and assumptions adopted in the Valuation Reports in order for us to understand the Valuation Reports.

We noticed the adoption of control premium and discount for lack of control in the Valuation Reports. With reference to the Board Letter and as confirmed by the Directors, they understood from the Independent Valuer that such mechanism was commonly used in the valuation to reflect the differences between the comparables and subject asset with regard to the ability to make decisions. Having considered (i) the shareholdings structure of the Subject Companies; (ii) the group structure and diversity of business of the Target Companies; (iii) the valuation methodology as detailed in Appendices VA and VB to the Circular; (iv) the minority equity interests to be acquired under the Acquisition; and (v) the qualification and independence of the Independent Valuer, the Board is of the view that the adoption of such mechanism in the Valuation Reports is reasonable.

We noticed a slight difference between the applications of discount of lack of control between the NZ Valuation and SZ Valuation. Should the same discount of lack of control (i.e. 22.90%) applied to SZ Valuation, there would be an upward adjustment of approximately RMB0.3 million in the SZ Valuation.

During our discussion with the Independent Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Reports. Given (i) the disadvantages and limitations of income approach and cost approach, being two other commonly adopted valuation approaches; and (ii) that the EV/EBITDA multiple (under the market approach) is an appropriate multiple for the Valuation Reports, as mentioned above, we did not adopt other valuation approaches to assess the SZ Valuation or the NZ Valuation.

Having considered (i) our independent work performed on the Valuation Reports; (ii) that the SZ Consideration represents a slight discount to "49% of the SZ Valuation"; and (iii) that the NZ Consideration represents a slight discount to "49% of the NZ Valuation", we are of the view that the Consideration (being the sum of the SZ Consideration and NZ Consideration) is fair and reasonable.

We noticed that (i) the consideration for the First Acquisition (i.e. acquisition of 51% equity interest in each of the Target Companies) was RMB255 million (the "**First Acquisition Consideration**"); and (ii) the original acquisition cost of the 10% equity interest of Shanghai Zhangyu to Mr. Bai Yuanliao (being one of the Vendors) was approximately RMB1,000,000 (the "**Bai's Acquisition Cost**") (such acquisition was completed on 6 May 2022) according to the Board Letter.

According to Appendices IIA and IIB to the Circular:

(a) Nanjing Zhangyu Group's revenue increased from approximately RMB45 million for the year ended 31 December 2021 ("**FY2021**") to approximately RMB133 million for FY2022 (caused by increase in revenue from digital technology and digital security segment) and to approximately RMB236 million for FY2023 (caused by continuous increase in revenue from digital technology and digital security segment and revenue contribution from the new energy and services business segment, which was formed after completion of the Zhejiang Zhongguang Acquisition).

(b) Nanjing Zhangyu Group's loss was approximately RMB553,000 for FY2021, profit was approximately RMB36 million for FY2022 and profit was approximately RMB61 million for FY2023.

(c) Shanghai Zhangyu Group did not generate any revenue for FY2021. Shanghai Zhangyu Group's revenue increased from approximately RMB15 million for FY2022 to approximately RMB43 million for FY2023.

(d) Shanghai Zhangyu Group's profit increased from approximately RMB1 million for FY2021 (mainly from written back of other payables) to approximately RMB6 million for FY2022 and to approximately RMB17 million for FY2023.

Given (i) the aforesaid improvement in financial performance of Nanjing Zhangyu Group and Shanghai Zhangyu Group; and (ii) that the SZ Consideration represents a slight discount to "49% of the SZ Valuation" and the NZ Consideration represents a slight discount to "49% of the NZ Valuation", we consider that the First Acquisition Consideration and Bai's Acquisition Cost do not affect our assessment on the fairness and reasonableness of the Consideration.

Completion

The Completion shall take place on the Completion Date upon all conditions set out in the Equity Purchase Agreement are satisfied or waived (as the case may be).

Taking into account the principal terms of the Acquisition as set out above, we consider that the terms of the Acquisition are fair and reasonable.

Financial effects in relation to the Acquisition

With reference to the Board Letter, upon the Completion, the Company will indirectly own the entire equity interest of the Target Companies; each of the Target Companies will become an indirect wholly-owned subsidiary of the Company; and the financial statements of every company in the Target Group will continue to be consolidated into the financial statements of the Group.

With reference to the 2023 Annual Report, the Group's total assets was approximately RMB4.25 billion and total liabilities was approximately RMB1.51 billion as at 31 December 2023. With reference to the 2023 Annual Report, the Group's profit for the year attributable to equity shareholders of the Company for FY2023 was approximately RMB69.70 million.

With reference to the Pro Forma FI:

(i) The unaudited consolidated total assets and total liabilities of the Enlarged Group would be approximately RMB4.04 billion and RMB1.82 billion respectively as if the Acquisition had been completed on 31 December 2023.

(ii) The unaudited profit for FY2023 attributable to equity shareholders of the Company would be approximately RMB77.97 million as if the Acquisition had been completed on 1 January 2023.

It should be noted that the aforementioned analysis is for illustrative purposes only and do not purport to represent how the financial position of the Enlarged Group will be upon Completion.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Acquisition are on normal commercial terms and are fair and reasonable; and (ii) although the Acquisition is not conducted in the ordinary and usual course of the business of the Company, it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

1. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated financial statements, together with the accompanying notes to the financial statements, of the Group for the three years ended 31 December 2021, 31 December 2022 and 31 December 2023 are disclosed in the following documents which have been published on the websites of the Stock Exchange (http://www.hkexnews.hk) and on the website of the Company (www.hengxin.com.sg).

- 2023 Annual Report, pages 89 to 180:
https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0328/2024032805268.pdf

- 2022 Annual Report, pages 75 to 160:
https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0324/2023032401049.pdf

- 2021 Annual Report, pages 67 to 144:
https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0323/2022032301037.pdf

2. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that following the Completions, after taking into account the effect of the Acquisition, the financial resources available to the Enlarged Group, including the presently available banking facilities, the internally generated funds from operations, and cash and bank balances of the Enlarged Group, the Enlarged Group has sufficient working capital to satisfy its requirements for at least 12 months from the date of this circular.

3. INDEBTEDNESS STATEMENT

As at the close of business on 30 April 2024, being the most recent practicable date for the purpose of indebtedness statement of the Enlarged Group prior to the publication of this circular, the Enlarged Group had the following outstanding indebtedness:

Indebtedness	**30 April 2024**
	RMB'000
Unsecured and unguaranteed bank loans	275,924
Secured and guaranteed bank loans	866,319
Unsecured and guaranteed bank loans	13,000
Lease liabilities	6,562
	1,161,805

As at the close of business on 30 April 2024, being the latest practicable date for the purpose of this statement of indebtedness, the Enlarged Group had outstanding balance of lease liabilities of approximately RMB6,562,000, unsecured bank loans of approximately RMB288,924,000 and secured bank loans of approximately RMB866,319,000, of which (1) RMB446,433,000 were secured by the

Enlarged Group's the income receipts right in relation to the sales of electricity and the certain property, plant and equipment of stations; (2) RMB27,646,000 were secured by the Enlarged Group's pledged deposits amounting to RMB35,000,000 and the sales of electricity; and (3) RMB392,240,000 were secured by a subsidiary of the Enlarged Group.

Save as aforesaid and apart from intra-group liabilities, as at 30 April 2024, the Enlarged Group did not have any debt securities issued and outstanding, any authorised or otherwise created but unissued, term loans, other borrowings, indebtedness in nature of borrowings including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, debentures, mortgages, charges, recognised lease liabilities, which are either guaranteed, unguaranteed, secured, or unsecured, or other material contingent liabilities or guarantees outstanding at the close of business.

4. NO MATERIAL ADVERSE CHANGE

The Directors confirmed that there was no material adverse change in the financial or trading position or outlook of the Group since 31 December 2023 (being the date to which the latest audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Central Economic Work Conference pointed out the spirit of "persisting in stable yet progressive growth, promoting stability through progress, creating a new model before abandoning the old one, implementing more policies conducive to stabilizing expectations, growth and employment" and "focusing on supporting scientific and technological innovation" for 2024.

As a result, it is expected that the Group's new digital technology and digital security and new energy and services business segments will be able to gain favorable development opportunities from the national policies. Under the backdrop of global economic digitisation transformation, emerging digital services focusing on data centers, cloud computing, big data and the internet of things ("**IoT**"), etc. are expected to maintain rapid development. The "Guideline on the Global Layout for Digital China Construction" (數字中國建設整體佈局規劃) issued by the Central Committee of the Communist Party of China and the State Council has made the work on the construction of Digital China as reference points in the assessment and evaluation of relevant Party and government leaders, which is the most substantial promotion of digital construction under the system with Chinese characteristics. The application of 5G in various industries will continue to move forward, along with increasing new demands arising from the integrated circuit industry and steady progress in domestic alternatives. The Ministry of Industry and Information Technology of the PRC has made it clear that it will fully promote the technological research and development of 6G. These favourable factors promote all business entities of the Group to ride on the momentum of industrial development.

In 2024, the Group will continue to improve the quality and efficiency of traditional products and consolidate its leading position in the industry under the guidance of "seizing market opportunities to strive for industry leadership, enhancing research and development (R&D) and innovation to promote high quality development". At the same time, the Group will further promote research and development changes, product lifecycle management (PLM) implementation, and accelerate the introduction and promotion of new products as well as breakthrough in new technologies and new material applications, to stabilize the continuous growth of RF series products. The Group will focus on the research and development of key wireless products such as 5G antennas, special scenario application antennas, green antennas, and repeater stations, start the pre-study of millimeter wave phased array and satellite communications antenna project for technology reserve and market development of the next generation of mobile communication technology 5G-A and 6G; promote market diversification, strengthen the development of domestic operators' non-collection and non-communications operators market; strengthen the development of overseas markets, accelerate the improvement of overseas industrial layout and export product structure, build international brands, and boost overseas business development.

In terms of integrated circuit design and supply chain services, the Group will step up efforts to secure and develop new customers and strive to provide mass production services for some customers who have successfully completed the tape-out process, thereby achieving a significant increase in order amounts. By developing a generic software driver software development kit (**SDK**) for the complete adaptation of the PMSC 1.0 intelligent IoT identity authentication security chips and supporting upper-layer applications on encrypted chips, the Group anticipates completing the software and hardware docking with pilot customers so as to put such chips into practical applications as early as possible. Meanwhile, it has developed a business system to provide support for the integrated circuit supply chain, which is currently under internal testing, with a view to opening up the service to external customers by the end of 2024.

In terms of cloud computing, the Group will make continuous efforts to develop customized software to meet the needs of typical industrial internet and IoT customers, including intelligent IoT data collection systems, remote operation, maintenance and management systems for intelligent IoT devices and industrial equipment, intelligent IoT data edge computing platforms, intelligent IoT data encryption and decryption communication systems, unified identification management systems for IoT devices, and security key management systems for IoT devices, etc. Efforts will also be made to complete the overall cloud computing service hosting for the IoT devices of pilot customers, which will provide backbone for the subsequent expansion into the cloud computing market. The Group is expected to become a new data infrastructure provider that integrates computing power, industry empowerment, self-operated products and data flow trading by continuously launching series of software and hardware solutions and product matrices.

In terms of digital technology security, the Group will endeavour to implement the Intelligent IoT Data Privacy Computing Project Plan and develop a recommendation system based on differential privacy. Through analyses on user data with privacy protection, the Group is committed to realizing specific information recommendations and thereby achieving models for cooperation in the fields of electricity, energy, medical and industrial IoT.

In terms of the new energy and services business, Zhejiang Zhongguang will continue to ensure the continuous and stable operation of the 50 megawatt ("**MW**") solar thermal molten salt energy storage power plant project, and that the 10 MW solar thermal molten salt energy storage power plant project can reach production early after technical transformation. Meanwhile, the Company will expand its market influence by combining the industrial tourism experience project and carry out new technical reforms to increase new revenue sources, explore opportunities for project development of large energy bases in Qinghai and Gansu, and actively create opportunities for capital acquisition and cooperation for the first batch of solar thermal demonstration projects. The operation and maintenance service business and energy storage business will be steadily promoted. At the same time, the Company will try to improve customers' differentiated demand response capabilities by jointly developing single-tank molten salt related products, and explore new business revenue engines.

Having considered the above and factors as mentioned in the section headed "REASONS FOR AND BENEFITS OF THE ACQUISITION" in the letter form the board of this circular, the Directors is of the view that the Acquisition is an important and pivotal move that aligns with the Group's long-term business development strategy and asset allocation strategy to further strengthen the business layout in the Zhangyu Related Businesses and it is expected the Acquisition would have a positive and crucial impact on the Group's future development and the sustainability of profitability.

6. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the Group for each of the three years ended 31 December 2021, 2022 and 2023 as derived from the annual reports of the Company for each of the three years ended 31 December 2021, 2022 and 2023 respectively.

For the year ended 31 December 2021

1. Business Overview

In the telecommunications business, fixed asset investments by major telecommunications operators, which constitute an important backdrop to the Group 's external environment, declined by 0.3% in 2021 as compared to the previous year. This decline is in stark contrast with the 4.7% growth in 2019 and 11% growth in 2020, alongside significant delays in the timing of acquisitions by major operators. The competition was further intensified in the feeder cable industry, resulting in a drop in pricing. Furthermore, the Group's major raw material copper saw significant price fluctuations in 2021 in the midst of the appreciating exchange rate of RMB. These factors increased considerable difficulties and pressure to the Group's operations.

Faced with the mounting pressure, the Group continued to achieve remarkable results, by taking advantage of good reputation in the industry and years of proven track records, in combination with a number of targeted and effective measures. The Group's annual revenue for the year ended 31 December 2021 reported approximately RMB1,625.8 million, representing an increase of approximately 42.7% as compared to the previous year. Although the gross profit margin dropped to 18.3 % due to market environmental factors, the net profit attributable to the equity shareholders of the Company still reached approximately RMB68.5 million, representing an increase of approximately 11.7% as compared to the previous year.

2. Financial Review

Revenue

The Group's revenue for the financial year ended 31 December 2021 ("**FY2021**") increased by approximately RMB486.5 million, or approximately 42.7% from approximately RMB1,139.3 million in the previous financial year ended 31 December 2020 ("**FY2020**") to approximately RMB1,625.8 million in FY2021.

The significant increase was mainly due to (i) the increase in revenue of approximately RMB148.6 million or 32.1% generated from the sales of feeder cables which driven by the general improvement in market demand and the Group's higher winning percentage of tender, as well as the increase in sales prices caused by higher costs; (ii) the increase in revenue of approximately RMB124.6 million or 47.4% generated from the sales of telecommunication equipment and accessories which was in line with the general increase in the revenue of feeder cables; and (iii) the increase in revenue of approximately RMB130.8 million or 63.2% generated from the sales of antennas which was mainly attributable to the Group's successful tender for the China Mobile 700 MHz project.

Gross profit and gross profit margin

The Group recorded a gross profit of approximately RMB296.6 million for FY2021, representing an increase of 13.7% compared to approximately RMB260.8 million for FY2020.

The Group achieved an overall gross profit margin of approximately 18.2% for FY2021 compared to approximately 22.9% for FY2020, representing a decrease of approximately 4.7% year-on-year. Although the Group has gained more market share during FY2021 and achieved a significant growth in revenue, there was still vigorous competition in the market due to the COVID-19 post pandemic effect and no increase in fixed asset investments by the PRC telecommunications operators. Combined with the significant increases in costs of raw materials, labour and transportation, the Group's various products have recorded lower gross profit margin in FY2021 as compared with FY2020.

Other operating income

Other operating income decreased by approximately RMB20.3 million or approximately 34.9% from approximately RMB58.2 million in FY2020 to approximately RMB37.9 million in FY2021. The decrease was primarily due to:

(a) decrease in government grants and subsidies of approximately RMB1.0 million;

(b) decrease in interest income of approximately RMB7.6 million resulting from the decrease in average cash and cash equivalents and time deposits balances during FY2021 as compared with FY2020;

(c) a net gain on commodity future contracts of approximately RMB4.7 million during FY2021, whereas in FY2020, there was a net loss on commodity future contracts of approximately RMB7.2 million that was classified as other operating expenses; and

(d) during FY2021, there was a net foreign exchange loss of approximately RMB5.7 million which was classified as other operating expenses as compared with the net foreign exchange gain of approximately RMB14.5 million for FY2020 that was classified as other operating income.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB10.3 million or approximately 11.0% from approximately RMB93.4 million in FY2020 to approximately RMB103.7 million in FY2021 due to the increase in salary expenses under selling and distribution expenses and the increase in freight and transportation costs and marketing expenses as a result of the general rising costs during FY2021.

Administrative expenses

Administrative expenses increased by approximately RMB7.6 million or approximately 19.4% from approximately RMB39.2 million in FY2020 to approximately RMB46.8 million in FY2021. The increase was mainly due to the increase in staff related costs.

Other operating expenses

Other operating expenses decreased by approximately RMB1.0 million or approximately 1% from approximately RMB100.8 million in FY2020 to approximately RMB99.8 million in FY2021. Such change was mainly due to:

(a) an increase in research and development ("**R&D**") expenses incurred from continuing R&D activities undertaken for the modifications and improvements to the Group's products of approximately RMB18.5 million;

(b) a net loss on commodity future contracts of approximately RMB7.2 million in FY2020, whereas a net gain on commodity future contracts of approximately RMB4.7 million was recorded in FY2021 and was classified as other operating income;

(c) a decrease in the net loss on derivative financial instruments of approximately RMB17.9 million in FY2021; and

(d) during FY2021, there was a net foreign exchange loss of approximately RMB5.7 million which was classified as other operating expenses as compared with the net foreign exchange gain of approximately RMB14.5 million for FY2020 that was classified as other operating income.

Interest expense

Interest expense decreased by approximately RMB5.9 million or approximately 45.4% from approximately RMB13.0 million in FY2020 to approximately RMB7.1 million in FY2021, mainly because of the decrease in average interest rates of short-term loans during FY2021.

Income tax

The Group's main subsidiary, Jiangsu Hengxin Technology Co., Ltd. ("**Jiangsu Hengxin**"), has been subject to an incentive tax rate of 15% as it has been awarded as a high-tech enterprise in the PRC since 2008. It has been awarded the same status until December 2023.

Income tax expense decreased by RMB1.5 million or 12.3% from approximately RMB12.2 million in FY2020 to approximately RMB10.7 million in FY2021. The decrease was mainly due to the over-provision in prior years.

Profit attributable to equity shareholders of the Company

In view of the above, after taking into account of the contribution from non-controlling interest, profit attributable to equity shareholders of the Company increased by approximately RMB10.0 million or approximately 16.3% from approximately RMB61.3 million in FY2020 to approximately RMB71.3 million in FY2021.

3. Foreign Currency Exposure

RMB is the functional currency of the Group. Currencies other than RMB expose the Group to foreign currency risk. The Group has foreign currency sales and its revenue and costs are denominated in RMB, India Rupees ("**INR**") and United States dollars ("**USD**"). Some of the Group's bank balances are denominated in USD, Singapore dollars ("**SGD**"), HKD and INR, whilst some costs may be denominated in HKD, SGD and INR. The Group has implemented a hedging policy to strike a balance between the uncertainty and the risk of opportunity loss in light of the growing significance of its exposure to the fluctuations in foreign currency, under which policy foreign exchange forward contracts may be used to eliminate the currency exposure. The Group has entered into certain forward contracts as at the end of FY2021 on hedging the expected fluctuations of the exchange rate of USD and will continue to monitor foreign exchange exposure and consider hedging other significant foreign currency exposure should the need arise.

4. Charge or Pledge of Assets

As at 31 December 2021, deposits amounting to RMB9,842,000 (2020: RMB10,600,000) were pledged to banks as guarantees for bidding of customer contracts and issuing letter of guarantee. Pledged bank deposits bear interest at an average effective interest rates at 1.317% (2020: 1.390%) per annum and for a tenure of approximately 4 to 60 months (2020: 4 to 60 months). Remaining pledged deposits is pertaining to the security deposit for the commodity future contracts entered to hedge the purchase of raw materials during the year.

5. *Liquidity and Financial Resources*

As at 31 December 2021, the Group's total assets were approximately RMB2,477,454,000 (2020: approximately RMB2,227,781,000) (of which current assets were approximately RMB2,291,260,000 (2020: approximately RMB2,041,293,000) and non-current assets were approximately RMB186,194,000 (2020: approximately RMB186,488,000)), the total liabilities were approximately RMB690,283,000 (2020: approximately RMB495,367,000) (of which current liabilities were approximately RMB677,528,000 (2020: approximately RMB480,982,000) and non-current liabilities were approximately RMB12,755,000 (2020: approximately RMB14,385,000)), and shareholder's equity attributable to equity shareholders of the Company reached approximately RMB1,793,422,000 (2020: approximately RMB1,730,286,000). As at 31 December 2021, the Group's cash and cash equivalents and time deposits were approximately RMB1,052,919,000 (2020: approximately RMB1,357,073,000). The Group's time deposits were all due more than three months. As at 31 December 2021, the Group has short-term bank borrowings due within one year of approximately RMB330,293,000 (2020: approximately RMB278,371,000) carrying fixed interest rate. At 31 December 2021, the Group had approximately RMB1,625,700,000 (2020: approximately RMB1,616,036,000) of unutilised bank borrowing facilities.

The Group generally finances its operations from cash flows generated internally and short-term bank borrowings.

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of debt and equity balance.

As at the end of FY2021, the Group is in compliance with all capital requirements on its external borrowings.

Management monitors capital based on the Group's debt-to-assets ratio (equivalent to gearing ratio). The debt-to-assets ratio (total liabilities divided by total assets) at the end of the FY2021 is as follows:

	As at 31 December	
	2021	**2020**
	RMB'000	*RMB'000*
Total liabilities	690,283	495,367
Total assets	2,477,454	2,227,781
Debt-to-assets ratio	28%	22%

6. *Contingent Liabilities*

As at 31 December 2021, the Group did not have any material contingent liabilities.

7. Employees and Remuneration Policies

As at 31 December 2021, there were 848 (31 December 2020: 772) employees in the Group. Staff remuneration packages are determined in consideration of the market conditions and the performance of the individual concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses to eligible staff based on their performance and contributions to the Group.

8. Future Plans for Material Investments or Capital Assets

As at 31 December 2021, the Group did not have any plans for material investments and capital assets.

9. Significant Investment Held

As at 31 December 2021, the Group did not hold any significant investments.

10. Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the year ended 31 December 2021, there were no material acquisitions and disposals of subsidiaries, associates and joint ventures by the Group.

For the year ended 31 December 2022

1. Business Overview

The telecommunications industry slightly outperformed the overall economy in 2022. According to the statistics of China's Ministry of Industry and Information Technology, the revenue of the telecommunications industry increased by 8% in 2022, with traditional businesses dominated by mobile data traffic, broadband access, voice and SMS remaining stable, and emerging digital services such as data centers, cloud computing, big data and the Internet of Things (IoT) developing rapidly, achieving a revenue growth of 32.4% as compared to the previous year. The fixed assets investment in the telecommunications industry, which is closely related to the operating environment of the Group, increased by 3.3% in 2022 as compared to the previous year, among which the 5G investments decreased by 2.5%.

Amid the unfavorable macroeconomic conditions both domestically and internationally, the Group faced various challenges with courage and proactiveness. Taking advantage of favourable conditions, the Group managed to seize profitable opportunities successfully, and realized a revenue of approximately RMB2,039.6 million, representing a year-on-year increase of approximately 25.5%, and a profit for the year of approximately RMB68.1 million, representing an increase of approximately 8.3% over the corresponding period in the previous year, with improved economic indicators reflecting profitability and operational capability.

In 2022, the Group completed its largest investment project since its establishment: the acquisition of each of 51% equity interests in the Target Companies. After completion of the acquisition of the Target Companies in mid-July 2022, both companies forged ahead and made achievements despite the extremely negative impact brought by the recurring pandemic on the Group. In 2022, the Original Zhangyu Group reported a total revenue of approximately RMB147.95 million, representing an increase of more than 200% as compared to the corresponding period in the previous year, and the net profit of the Group reached over RMB40.0 million, increasing by approximately 100 times compared to the corresponding period in the previous year, thus successfully achieving the Group's annual profit targets. Upon completion of these acquisitions, the Group has two additional business areas which have growth potentials, marking that the Group has tapped into two new business fields, namely digital technology and security and integrated circuit supply chain services, and started to reap the benefits of its dedicated efforts on business transformation over the years.

2. *Financial Review*

Revenue

The Group's revenue for the financial year ended 31 December 2022 ("**FY2022**") increased by approximately RMB413.8 million, or approximately 25.5% from approximately RMB1,625.8 million in FY2021 to approximately RMB2,039.6 million in FY2022.

Part of the increase in revenue for FY2022 was due to the completion of the acquisition of the Target Companies in July 2022. During the second half of FY2022, the Original Zhangyu Group contributed a revenue of approximately RMB94.2 million. The revenue of the Original Zhangyu Group formed a new business segment for the Group, namely digital technology and digital security.

By separating the revenue contribution by the Original Zhangyu Group in the second half of FY2022, the telecommunications business segment recorded an increase in revenue of approximately RMB319.6 million or 19.7% from approximately RMB1,625.8 million for FY2021 to approximately RMB1,945.4 million for FY2022.

Gross profit and gross profit margin

The Group recorded a gross profit of approximately RMB375.5 million for FY2022, representing an increase of approximately 26.6% compared to approximately RMB296.6 million for FY2021.

The Group achieved an overall gross profit margin of approximately 18.4% for FY2022 compared to approximately 18.2% for FY2021, representing a slight increase of approximately 0.2 percentage point year-on-year. By separating the digital technology and digital security segment, the rest of the telecommunications business segments achieved a gross profit margin of approximately 17.1%, representing a decrease of approximately 1.1 percentage point. The digital technology and digital security segment achieved a gross profit margin of approximately 45.7% during the second half of FY2022.

Although the Group achieved significant revenue growth in the telecommunications business segment in FY2022, due to the sluggish investment in fixed assets of telecommunications operators in China and fierce market competition, the Group has to secure sales orders with a more competitive pricing policy, coupled with the more stringent epidemic prevention and control measures, high temperature, power cuts, etc. have had a considerable impact on normal production and supply chains, resulting in a significant increase in transportation costs and labor costs. As compared with FY2021, major products have recorded a lower gross profit margin in FY2022.

For the digital technology and digital security business segment, the gross profit margin was approximately 45.7% during the second half of FY2022. Due to the nature of digital security and IP authorization businesses, the gross profit margin of such segment is generally higher than the other business segments of the Group. Despite the lower gross profit margin of the telecommunications business segment in FY2022, the Group achieved an overall slight increase in gross profit margin of approximately 0.2 percentage point year-on-year and an increase in gross profit contribution of approximately RMB79.0 million or 26.6% year-on-year.

Other operating income

Other operating income increased by approximately RMB10.1 million or approximately 26.6% from approximately RMB37.9 million in FY2021 to approximately RMB48.0 million in FY2022. The increase was primarily due to:

(a) a decrease in government grants and subsidies of approximately RMB6.7 million;

(b) a decrease in net gain on commodity future contracts of approximately RMB2.5 million from approximately RMB4.7 million in FY2021 to approximately RMB2.2 million in FY2022;

(c) during FY2021, there was a net foreign exchange loss of approximately RMB5.7 million which was classified as other operating expenses as compared with the net foreign exchange gain of approximately RMB17.0 million for FY2022 that was classified as other operating income; and

(d) a net increase in other items of approximately RMB2.3 million.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB14.7 million or approximately 14.2% from approximately RMB103.7 million in FY2021 to approximately RMB118.4 million in FY2022. This was due to a combination of various factors including the increase in salary expenses under selling and distribution expenses, the increase in transportation costs, and the increase in marketing expenses due to increased efforts in business promotion.

Administrative expenses

Administrative expenses increased by approximately RMB13.8 million or approximately 29.4% from approximately RMB46.8 million in FY2021 to approximately RMB60.6 million in FY2022. The increase was mainly due to the increase in staff related costs and legal and profession fees related to the acquisition of the Target Companies during FY2022.

Other operating expenses

Other operating expenses increased by approximately RMB55.9 million or approximately 56.1% from approximately RMB99.8 million in FY2021 to approximately RMB155.7 million in FY2022. Such change was mainly due to:

(a) an increase in R&D expenses by approximately RMB24.7 million year-on-year, of which approximately RMB104.3 million (representing an increase of approximately RMB14.5 million or 16.1%) was used for the continuing R&D activities undertaken for the modifications and improvements to the Group's telecommunications products during FY2022 and approximately RMB10.2 million was used for the R&D undertaken by the Original Zhangyu Group during the second half of FY2022;

(b) an increase in the net loss on derivative financial instruments of approximately RMB4.3 million in FY2022;

(c) a net loss on financial assets measured at FVTPL of approximately RMB32.4 million in FY2022; and

(d) during FY2021, there was a net foreign exchange loss of approximately RMB5.7 million which was classified as other operating expenses as compared with the net foreign exchange gain of approximately RMB17.0 million for FY2022 that was classified as other operating income.

Interest expense

Interest expense increased by approximately RMB4.8 million or approximately 67.6% from approximately RMB7.1 million in FY2021 to approximately RMB11.9 million in FY2022, mainly because of the increase in average interest rates of short-term loans during FY2022.

Income tax

The Group's main subsidiary, Jiangsu Hengxin, has been subject to an incentive tax rate of 15% as it has been awarded as a high-tech enterprise in the PRC since 2008. It has been awarded the same status until December 2023. Income tax expense decreased by RMB1.8 million or 17.3% from approximately RMB10.7 million in FY2021 to approximately RMB8.9 million in FY2022. The decrease was mainly due to (i) the increase in profit from operations and the new profit center after the acquisition of the Target Companies in the second half of

FY2022; and (ii) the deferred tax expense arising from the origination of temporary difference mainly from contingent consideration and put option and intangible assets identified in business combination.

Profit attributable to equity shareholders of the Company

In view of the above, after taking into account of the effect of non-controlling interests, profit attributable to equity shareholders of the Company decreased by approximately RMB7.7 million or approximately 10.8% from approximately RMB71.3 million in FY2021 to approximately RMB63.6 million in FY2022.

3. Foreign Currency Exposure

RMB is the functional currency of the Group. Currencies other than RMB expose the Group to foreign currency risk. The Group has foreign currency sales and its revenue and costs are denominated in RMB, INR and USD. Some of the Group's bank balances are denominated in USD, SGD, HKD and INR, whilst some costs may be denominated in HKD, SGD and INR. The Group has implemented a hedging policy to strike a balance between the uncertainty and the risk of opportunity loss in light of the growing significance of its exposure to the fluctuations in foreign currency, under which policy foreign exchange forward contracts may be used to eliminate the currency exposure. The Group has entered into certain forward contracts as at the end of FY2022 on hedging the expected fluctuations of the exchange rate of USD and will continue to monitor foreign exchange exposure and consider hedging other significant foreign currency exposure should the need arise.

4. Charge or Pledge of Assets

As at 31 December 2022, deposits amounting to RMB39,671,000 (2021: RMB9,842,000) were pledged to banks as guarantees for bidding of customer contracts and issuing letter of guarantee. Pledged bank deposits bear interest at an average effective interest rates at 1.0878% (2021: 1.317%) per annum and for a tenure of approximately 4 to 60 months (2021: 4 to 60 months). Remaining pledged deposits is pertaining to the security deposit for the commodity future contracts entered to hedge the purchase of raw materials during the year.

5. Liquidity and Financial Resources

As at 31 December 2022, the Group's total assets were approximately RMB2,542,339,000 (2021: RMB2,477,454,000) (of which current assets were approximately RMB2,077,261,000 (2021: approximately RMB2,291,260,000) and non-current assets were approximately RMB465,078,000 (2021: approximately RMB186,194,000)), the total liabilities were approximately RMB653,509,000 (2021: approximately RMB690,283,000) (of which current liabilities were approximately RMB632,498,000 (2021: approximately RMB677,528,000) and non-current liabilities were approximately RMB21,011,000 (2021: approximately RMB12,755,000)), and shareholder's equity attributable to equity shareholders of the Company reached approximately RMB1,857,114,000(2021: approximately RMB1,793,422,000). As at 31 December 2022, the Group's cash and cash equivalents and time deposits were approximately RMB1,181,561,000 (31 December 2021: approximately RMB1,052,919,000). The Group's time deposits were all due more than three months. As at 31 December 2022, the Group has short-term bank borrowings due within one year of approximately RMB228,634,000 (2021: approximately RMB330,293,000) carrying fixed interest rate. At 31 December 2022, the Group had approximately RMB2,454,000,000 (2021: approximately RMB1,625,700,000) of unutilised bank borrowing facilities.

The Group generally finances its operations from cash flows generated internally and short-term bank borrowings.

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of debt and equity balance.

As at the end of FY2022, the Group is in compliance with all capital requirements on its external borrowings.

Management monitors capital based on the Group's debt-to-assets ratio (equivalent to gearing ratio). The debt-to-assets ratio (total liabilities divided by total assets) at the end of FY2022 is as follows:

	As at 31 December	
	2022	**2021**
	RMB'000	*RMB'000*
Total liabilities	653,509	690,283
Total assets	2,542,339	2,477,454
Debt-to-assets ratio	26%	28%

6. Contingent Liabilities

As at 31 December 2022, the Group did not have any material contingent liabilities.

7. Employees and Remuneration Policies

As at 31 December 2022, there were 936 (31 December 2021: 848) employees in the Group. Staff remuneration packages are determined in consideration of the market conditions and the performance of the individual concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses to eligible staff based on their performance and contributions to the Group.

8. Future Plans for Material Investments or Capital Assets

As at 31 December 2022, the Group did not have any plans for material investments and capital assets.

9. Significant Investment Held

As at 31 December 2022, the Group did not hold any significant investments.

10. Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

On 5 May 2022, the Company announced the acquisition of 51% equity interest in each of the Target Companies, which was subsequently completed on 19 July 2022. For further details, please refer to the announcement of the Company dated 5 May 2022, 31 May 2022 and the completion announcement dated 25 July 2022.

Save as disclosed above, there were no material acquisitions or disposals of subsidiaries, associates or joint ventures for the year ended 31 December 2022.

For the year ended 31 December 2023

1. Business Overview

The telecommunications industry slightly outperformed the overall economy in 2023. According to the statistics of China's Ministry of Industry and Information Technology, the revenue of the telecommunications industry increased by 6.2% in 2023 as compared with that of the previous year, of which the revenue from fixed Internet broadband access business grew steadily and the revenue from mobile data traffic business dropped slightly; however, with the rapid development of data centers, cloud computing, big data, Internet of Things (IoT) and other emerging businesses, business revenue in 2023 increased by 19.1% as compared with that of the previous year, and its share in the revenue of the telecommunication industry increased from 19.4% in the previous year to 21.2%, driving the revenue of the telecommunications industry to increase by 3.6 percentage points. Among them, revenue from cloud computing and big data business both increased by 37.5% over the previous year, and revenue from IoT business increased by 20.3% over the previous year. The fixed assets investment in the three major telecommunication operators in the telecommunications industry and China Tower Corporation Limited, which is closely related to the operating environment of the Group, increased by 0.3% in 2023 as compared to the previous year, among which the 5G investments increased by 5.7% year-on-year.

In 2023, under the unfavorable international situation, development opportunities for China always outweighed the challenges, while the favorable conditions outweighed the unfavorable factors, and the basic trend of the long-term improvement of China's economy remained unchanged, which supported the high-quality development of China's economy. Faced various challenges with courage and proactiveness, the Group managed to seize profitable opportunities successfully by taking advantage of favourable conditions. Throughout the year, the Group realized a revenue of approximately RMB2,255.9 million, representing a year-on-year increase of approximately 10.6%, and a profit for the year of approximately RMB104.2 million, representing an increase of approximately 53.0% over the corresponding period in the previous year, and reflecting the continued improvement of the Group's economic indicators of profitability and operational capacity under its business diversification development strategy in 2022 and 2023.

In 2022, the Group acquired each of 51% equity interests in each of the Target Companies. Subsequently, the Original Zhangyu Group contributed total revenue of approximately RMB202.7 million in 2023, representing an increase of approximately 115.1% over the total revenue generated after the completion of the acquisition in the previous year, and Target Companies has fulfilled the profit guarantee as stipulated under the Previous Equity Purchase Agreement. This marks that the new digital technology and security and integrated circuit supply chain services under the Group's business diversification strategy have entered the harvest period, and started to reap the benefits of its dedicated efforts on business transformation over the years.

In addition, with the completion of the acquisition of 51% equity interest in Zhejiang Zhongguang on 21 July 2023 by Longkong Zhongguang, which was established by the Group in 2023 and in which the Group holds an 87.67% equity interest, marking the further completion of the Group's development strategy to explore new businesses. Following the completion of the acquisition of Zhejiang Zhongguang, Zhejiang Zhongguang Group (representing the new energy and services business segment of the Company) had contributed a revenue of approximately RMB77.1 million to the Group's revenue in 2023.

2. Financial Review

Revenue

The Group's revenue for the financial year ended 31 December 2023 ("**FY2023**") increased by approximately RMB216.3 million, or approximately 10.6% from approximately RMB2,039.6 million in FY2022 to approximately RMB2,255.9 million in FY2023.

Part of the increase in revenue for FY2023 was due to the completion of the acquisition of Target Companies in July 2022. The revenue of the Original Zhangyu Group formed the digital technology and digital security business segment of the Group. During the full year of FY2023, the Original Zhangyu Group contributed approximately RMB202.7 million of revenue, representing an increase of approximately RMB108.5 million or 115.1% from revenue during the previous year.

The other reason contributing to the increase in revenue for FY2023 was due to the completion of the acquisition of Zhejiang Zhongguang in July 2023. The revenue of Zhejiang Zhongguang Group formed the new energy and services business segment of the Group. Zhejiang Zhongguang Group contributed approximately RMB77.1 million in revenue in the second half of FY2023.

The telecommunications business segment recorded a small increase in revenue of approximately RMB30.8 million or 1.6% from approximately RMB1,945.4 million in FY2022 to approximately RMB1,976.2 million in FY2023.

Gross profit and gross profit margin

The Group recorded a gross profit of approximately RMB434.7 million for FY2023, representing an increase of approximately 15.8% compared to approximately RMB375.5 million for FY2022.

The Group achieved an overall gross profit margin of approximately 19.3% for FY2023 compared to approximately 18.4% for FY2022, representing an increase of approximately 0.9 percentage point year-on-year. By separating the digital technology and digital security business segment and new energy and service business segment, the rest of the telecommunications business segment achieved a gross profit margin of approximately 15.3%, representing a decrease of approximately 1.8 percentage points as compared to the previous year. The digital technology and digital security business segment achieved a gross profit margin of approximately 41.7% during the year of FY2023 (gross profit margin of 45.7% during the second half of FY2022), representing a decrease of approximately 4.0 percentage points year-on-year. The new energy and service business segment achieved a gross profit margin of approximately 61.8% after the completion of the acquisition in July 2023.

As mentioned before, the telecommunications business segment has faced strong market competition; in order to maintain its market share, more competitive pricing strategy was applied in order to secure more orders, therefore gross profits recorded a decrease year-on-year. Gross profit contribution for the telecommunications business segment in FY2023 recorded a year-on-year decrease of approximately RMB29.1 million or 8.8% from approximately RMB331.6 million in FY2022 to approximately RMB302.5 million in FY2023.

Because of the change in products mix in FY2023 comparing FY2022, the digital technology and digital security business segment recorded a slight decrease in gross profit margin. Nonetheless, the digital technology and digital security business segment recorded a gross profit of approximately RMB84.5 million for FY2023, representing an increase of approximately RMB41.4 million or 96.1% as compared to the previous year.

Since the completion of the acquisition of Zhejiang Zhonggunag in July 2023, the new energy and services business segment recorded a gross profit of approximately RMB47.6 million with a gross profit margin of approximately 61.8%.

As the digital technology and digital security and new energy and services business segments have higher gross profit margin than the telecommunications business segment, the Group was able to record a year-on-year increase in the overall gross profit margin.

Other operating income

Other operating income increased by approximately RMB6.1 million or approximately 12.7% from approximately RMB48.0 million in FY2022 to approximately RMB54.1 million in FY2023. The increase was primarily due to:

(a) an increase in interest income by approximately RMB8.1 million;

(b) an increase in government grants and subsidies of approximately RMB3.2 million;

(c) a decrease in net foreign gain of RMB6.3 million; and

(d) a net increase in other items of approximately RMB1.1 million.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately RMB10.6 million or approximately 9.0% from approximately RMB118.4 million in FY2022 to approximately RMB107.8 million in FY2023. This was due to a combination of various factors including the decrease in salary expenses under selling and distribution expenses, the decrease in transportation costs, and the decrease in marketing expenses due to the stringent policy to control the costs of the Group during FY2023.

Administrative expenses

Administrative expenses increased by approximately RMB11.9 million or approximately 19.6% from approximately RMB60.6 million in FY2022 to approximately RMB72.5 million in FY2023. The increase was mainly due to the full year consolidation of the Original Zhangyu Group, the inclusion of administrative expenses generated under Zhejiang Zhongguang Group after the completion of the acquisition in July 2023 and the legal and profession fees related to the acquisition of Zhejiang Zhongguang during FY2023.

Other operating expenses

Other operating expenses decreased by approximately RMB30.2 million or approximately 19.4% from approximately RMB155.7 million in FY2022 to approximately RMB125.5 million in FY2023. Such change was mainly due to:

(a) a slight increase in R&D expenses by approximately RMB0.1 million year-on-year from approximately RMB114.6 million in FY2022 to approximately RMB114.7 million in FY2023; and

(b) a decrease in the net loss on financial assets measured at FVPL of approximately RMB29.8 million in FY2023.

Interest expense

Interest expense increased by approximately RMB19.1 million or approximately 160.5% from approximately RMB11.9 million in FY2022 to approximately RMB31.0 million in FY2023, mainly because of the interest expenses amounting to approximately RMB20.8 million relating to the bank borrowings for the acquisition of Zhejiang Zhongguang during FY2023 and the inclusion of interest expenses relating to Zhejiang Zhongguang Group's bank loans.

Income tax

The Group's major subsidiaries, Jiangsu Hengxin, Nanjing Zhangyu, Shanghai Zhangyu, Qinghai Zhongkong, are subject to an incentive tax rate of 15% in FY2023 as they qualify as a high-tech enterprise in the PRC. Income tax expense increased by approximately RMB12.5 million or approximately 140.4% from approximately RMB8.9 million in FY2022 to approximately RMB21.4 million in FY2023. The increase was mainly due to (i) the increase in profit from operations during FY2023 due to the new profit centers after the acquisition of the Target Companies in the second half of FY2022; (ii) the increase in profit from operations and the new profit center after the acquisition of Zhejiang Zhongguang in the second half of FY2023; and (iii) the decrease in the deferred tax expense reversal arising from the origination of temporary difference mainly from contingent consideration and put option and intangible assets identified in business combination in FY2022.

Profit attributable to equity shareholders of the Company

In view of the above, after taking into account of the effect of non-controlling interests, profit attributable to equity shareholders of the Company increased by approximately RMB6.1 million or approximately 9.6% from approximately RMB63.6 million in FY2022 to approximately RMB69.7 million in FY2023.

3. Foreign Currency Exposure

RMB is the functional currency of the Group. Currencies other than RMB expose the Group to foreign currency risk. The Group has foreign currency sales and its revenue and costs are denominated in RMB, INR and USD. Some of the Group's bank balances are denominated in USD, SGD, HKD and INR, whilst some costs may be denominated in HKD, SGD and INR. The Group has implemented a hedging policy to strike a balance between the uncertainty and the risk of opportunity loss in light of the growing significance of its exposure to the fluctuations in foreign currency, under which policy foreign exchange forward contracts may be used to eliminate the currency exposure. The Group has entered into certain forward contracts as at the end of FY2023 on hedging the expected fluctuations of the exchange rate of USD and will continue to monitor foreign exchange exposure and consider hedging other significant foreign currency exposure should the need arise.

4. Charge or Pledge of Assets

As at 31 December 2023, deposits amounting to approximately RMB30,164,000 (2022: RMB39,671,000) were pledged to banks as guarantees for bidding of customer contracts and issuing letter of guarantee. Pledged bank deposits bear interest at an average effective interest rates at 1.3933% (2022: 1.0878%) per annum and for a tenure of approximately 4 to 60 months (2022: 4 to 60 months). Remaining pledged deposits is pertaining to the security deposit for the commodity future contracts entered to hedge the purchase of raw materials during the year.

As at 31 December 2023, deposit amounting to approximately RMB35,000,000 (2022: Nil), electric generating facilities amounting to approximately RMB824,517,000 (2022: Nil) and trade and bills receivables amounting to approximately RMB256,940,000 (2022: Nil) were pledged to banks for secured bank loans and banking facilities at an interest rate of 4.35 – 4.90% per annum. Pledged bank deposits bear interest at an average effective interest rates at 2.9770% (2022: Nil) per annum and for 156 months. The pledged deposits will be released by the expiry of relevant banking facilities.

5. Liquidity and Financial Resources

As at 31 December 2023, the Group's total assets were approximately RMB4,247,771,000 (2022: RMB2,542,339,000) (of which current assets were approximately RMB2,517,664,000 (2022: approximately RMB2,077,261,000) and non-current assets were approximately RMB1,730,107,000 (2022: approximately RMB465,078,000)), the total liabilities were approximately RMB1,509,198,000 (2022: approximately RMB653,509,000) (of which current liabilities were approximately RMB648,831,000 (2022: approximately RMB632,498,000) and non-current liabilities were approximately RMB860,367,000 (2022: approximately RMB21,011,000)), and shareholder's equity attributable to equity shareholders of the Company reached approximately RMB1,925,709,000 (2022: approximately RMB1,857,114,000). As at 31 December 2023, the Group's total cash, time deposits and pledged deposits were approximately RMB1,380,821,000 (31 December 2022: approximately RMB1,181,561,000). As at 31 December 2023, the Group has current bank loans due within one year of approximately RMB176,543,000 (2022: approximately RMB228,634,000) carrying fixed interest rates and non-current bank loans of approximately RMB836,366,000 carrying fixed interest rates. At 31 December 2023, the Group had approximately RMB3,251,000,000 (2022: approximately RMB2,454,000,000) of unutilised bank borrowing facilities.

The Group generally finances its operations from cash flows generated internally and short-term bank borrowings

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of debt and equity balance.

As at the end of FY2023, the Group is in compliance with all capital requirements on its external borrowings.

Management monitors capital based on the Group's debt-to-assets ratio (equivalent to gearing ratio). The debt-to-assets ratio (total liabilities divided by total assets) at the end of FY2023 is as follows:

	As at 31 December	
	2023	**2022**
	RMB'000	*RMB'000*
Total liabilities	1,509,198	653,509
Total assets	4,247,771	2,542,339
Debt-to-assets ratio	36%	26%

6. Contingent Liabilities

As at 31 December 2023, the Group did not have any material contingent liabilities.

7. Employees and Remuneration Policies

As at 31 December 2023, there were 1,095 (31 December 2022: 936) employees in the Group. Staff remuneration packages are determined in consideration of the market conditions and the performance of the individual concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses to eligible staff based on their performance and contributions to the Group.

8. Future Plans for Material Investments or Capital Assets

As at 31 December 2023, the Group did not have any plans for material investments and capital assets.

9. Significant Investment Held

As at 31 December 2023, the Group did not hold any significant investments.

10. Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

On 31 May 2023, the Company announced the acquisition of 51% equity interest in Zhejiang Zhonggunag through Nanjing Zhangyu, which was subsequently completed on 21 July 2023. For further details, please refer to the announcements of the Company dated 31 May 2023 and 2 July 2023, the circular of the Company dated 29 June 2023, the 2023 July EGM poll results announcement of the Company dated 19 July 2023 and the completion announcement dated 24 July 2023.

Save as disclosed above, there were no material acquisitions or disposals of subsidiaries, associates or joint ventures for the year ended 31 December 2023.

The following is the text of a report set out on pages IIA-1 to IIA-66, received from the Company's reporting accountants, CL Partners CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF NANJING ZHANGYU INFORMATION TECHNOLOGY CO., LTD. TO THE DIRECTORS OF HENGXIN TECHNOLOGY LTD.

Introduction

We report on the historical financial information of Nanjing Zhangyu Information Technology Co., Ltd. ("**Nanjing Zhangyu**") and its subsidiaries (together, the "**Nanjing Zhangyu Group**") set out on pages IIA-4 to IIA-66, which comprises the consolidated statements of financial position of the Nanjing Zhangyu Group and statements of a financial position of Nanjing Zhangyu as at 31 December 2021, 2022 and 2023 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2021, 2022 and 2023 (the "**Relevant Periods**"), and material accounting policy information and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages IIA-4 to IIA-66 forms an integral part of this report, which has been prepared for inclusion in the circular of Hengxin Technology Ltd. (the "**Company**") dated 25 June 2024 (the "**Circular**") in connection with the proposed acquisition of the 49% equity interest of Nanjing Zhangyu Group by the Company.

Directors' responsibility for Historical Financial Information

The directors of Nanjing Zhangyu are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of the Circular in which the Historical Financial Information of the Nanjing Zhangyu Group is included, and such information is prepared based on the accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "*Accountants' Reports on Historical Financial Information in Investment Circulars*" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Nanjing Zhangyu Group's financial position as at 31 December 2021, 2022 and 2023, of Nanjing Zhangyu's financial position as at 31 December 2021, 2022 and 2023, and of the Nanjing Zhangyu Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustment

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIA-3 have been made.

Dividends

We refer to note 26(b) to the Historical Financial Information which states that no dividends have been paid by Nanjing Zhangyu in respect of the Relevant Periods.

CL Partners CPA Limited
Certified Public Accountants
HONG, Ting
Practising Certificate Number: P07069
Hong Kong

25 June 2024

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Nanjing Zhangyu Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**") except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(Expressed in Renminbi ("RMB"))

		Year ended 31 December		
		2021	**2022**	**2023**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*4*	45,418	132,538	235,984
Cost of sales		(32,849)	(74,109)	(109,439)
Gross profit		12,569	58,429	126,545
Other operating income	*5*	1,263	3,470	6,121
Selling and distribution expenses		–	(662)	(1,287)
Administrative expenses		(1,090)	(1,614)	(18,728)
Other operating expenses	*6*	(13,295)	(20,395)	(14,599)
(Loss)/profit from operations		(553)	39,228	98,052
Interest expense	*7(a)*	–	(12)	(26,746)
Share of profit of an associate		–	–	9
(Loss)/profit before taxation	*7*	(553)	39,216	71,315
Income tax	*8*	–	(2,956)	(9,883)
(Loss)/profit and total comprehensive (expenses)/income for the year		(553)	36,260	61,432
Attributable to:				
Equity shareholders of Nanjing Zhangyu		(500)	35,440	49,672
Non-controlling interests		(53)	820	11,760
Total comprehensive (expenses)/income for the year		(553)	36,260	61,432

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Renminbi ("RMB"))

		As at 31 December		
		2021	**2022**	**2023**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*9*	517	955	958,359
Intangible assets	*10*	–	4,758	201,468
Goodwill	*11*	–	–	46,473
Interest in an associate	*13*	–	–	4,178
Time deposits	*14*	–	–	20,000
Pledged deposit	*15*	–	–	35,000
Deferred tax assets	*24*	–	–	4,102
		517	5,713	1,269,580
Current assets				
Inventories and other contract costs	*16*	–	390	10,171
Trade and other receivables	*17*	36,870	63,923	398,150
Cash	*18*	4,071	29,348	395,315
Financial asset measured at fair value through profit or loss ("FVPL")	*19*	–	–	2,949
Derivative financial assets	*20*	–	–	82,041
		40,941	93,661	888,626

		As at 31 December		
		2021	**2022**	**2023**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities				
Trade and other payables	*21*	20,293	38,924	383,458
Bank loans	*22*	–	–	52,803
Lease liabilities	*23*	–	144	2,916
Income tax payable	*24*	–	2,881	3,290
		20,293	41,949	442,467
Net current assets		20,648	51,712	446,159
Total assets less current liabilities		21,165	57,425	1,715,739
Non-current liabilities				
Bank loans	*22*	–	–	836,365
Deferred income	*25*	–	–	26
Lease liabilities	*23*	–	–	3,463
Deferred tax liabilities	*24*	–	–	10,353
		–	–	850,207
NET ASSETS		21,165	57,425	865,532
CAPITAL AND RESERVES				
Share capital	*26(c)*	20,000	20,000	20,000
Reserves	*26(d)*	986	36,426	86,098
Total equity attributable to equity shareholders of Nanjing Zhangyu		20,986	56,426	106,098
Non-controlling interests		179	999	759,434
TOTAL EQUITY		21,165	57,425	865,532

STATEMENTS OF FINANCIAL POSITION OF NANJING ZHANGYU

		As at 31 December		
		2021	**2022**	**2023**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment		145	290	2,492
Intangible assets		–	4,757	15,954
Investments in subsidiaries	*12*	–	–	258,740
Deferred tax asset		–	–	1
		145	5,047	277,187
Current assets				
Trade and other receivables		21,994	38,518	75,624
Cash		2,651	18,567	12,368
Inventories and other costs		–	–	472
		24,645	57,085	88,464
Current liabilities				
Trade and other payables		5,215	6,713	263,557
Income tax payable		–	2,849	4,209
Lease liabilities		–	144	1,318
		5,215	9,706	269,084
Net current assets/(liabilities)		19,430	47,379	(180,620)
Total assets less current liabilities		19,575	52,426	96,567

		As at 31 December		
		2021	**2022**	**2023**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liability				
Lease liability		–	–	1,019
NET ASSETS		19,575	52,426	95,548
CAPITAL AND RESERVES	*26*			
Share capital		20,000	20,000	20,000
Reserves		(425)	32,426	75,548
TOTAL EQUITY		19,575	52,426	95,548

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Renminbi ("RMB"))

		Attributable to equity shareholders of Nanjing Zhangyu					
		Share capital	General reserves	Retained profits	Total	Non-controlling interests	Total
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2021		20,000	–	1,486	21,486	232	21,718
Changes in equity for 2021:							
Loss and total comprehensive expenses for the year		–	–	(500)	(500)	(53)	(553)
Balance at 31 December 2021		20,000	–	986	20,986	179	21,165
Balance at 1 January 2022		20,000	–	986	20,986	179	21,165
Changes in equity for 2022:							
Profit and total comprehensive income for the year		–	–	35,440	35,440	820	36,260
Transfer to general reserves		–	3,416	(3,416)	–	–	–
Balance at 31 December 2022		20,000	3,416	33,010	56,426	999	57,425
Balance at 1 January 2023		20,000	3,416	33,010	56,426	999	57,425
Changes in equity for 2023:							
Profit and total comprehensive income for the year		–	–	49,672	49,672	11,760	61,432
Transfer to general reserves		–	12,008	(12,008)	–	–	–
Acquisition of subsidiaries	29	–	–	–	–	657,370	657,370
Capital contribution received from non-controlling shareholder of a subsidiary		–	–	–	–	90,000	90,000
Liquidation of a subsidiary		–	–	–	–	(695)	(695)
Balance at 31 December 2023		20,000	15,424	70,674	106,098	759,434	865,532

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Renminbi ("RMB"))

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
(Loss)/profit before taxation	(553)	39,216	71,315
Adjustments for:			
Depreciation of property, plant and equipment and right-of-use assets	57	370	18,517
Amortisation of intangible assets	–	206	4,586
Interest expense	–	12	26,746
Interest income	(7)	(104)	(3,938)
Share of profit of an associate	–	–	(9)
Net gains on derivative financial assets	–	–	(332)
Net gains on financial asset measured at FVPL	–	–	(24)
	(503)	39,700	116,861
Changes in working capital:			
Inventories and other contract costs	–	(390)	(8,783)
Trade and other receivables	2,832	(19,610)	(15,448)
Trade and other payables	172	18,631	23,176
Deferred income	–	–	26
Cash generated from operations	2,501	38,331	115,832
Interest received	7	104	3,938
Income tax paid	–	(75)	(8,440)
Net cash generated from operating activities	2,508	38,360	111,330

	Notes	Year ended 31 December 2021 RMB'000	2022 RMB'000	2023 RMB'000
Investing activities				
Payment for acquisition of property, plant and equipment		(406)	(456)	(3,245)
Payment for acquisition of intangible assets		–	(4,964)	(12,314)
Payment for acquisition of subsidiaries	*29*	–	–	(205,877)
Payment for acquisition of a subsidiary which does not constitute business	*18(d)*	–	–	(5,850)
Payment of derivative financial assets		–	–	(81,709)
Payment for in time deposits		–	–	(20,000)
Payment for liquidation of a subsidiary		–	–	(695)
Proceeds from disposal of property, plant and equipment		–	–	1
Advance to the immediate controlling party		–	(17,500)	–
Advance to a fellow subsidiary		–	(13,308)	(28,346)
Advance to third parties		–	(87)	–
Advance to a director		–	(476)	–
Proceeds from repayment from a director		–	19,949	–
Proceeds from repayment from third parties		–	242	45
Proceeds from repayment from a fellow subsidiary		–	3,737	7,410
Net cash used in investing activities		(406)	(12,863)	(350,580)
Financing activities				
Capital injection from a non-controlling shareholder of a subsidiary		–	–	90,000
Advance from the immediate controlling party		–	–	250,000
Proceeds from bank loans		–	–	397,240
Repayment of bank loans		–	–	(110,368)
Capital element of lease rentals paid		–	(208)	(872)
Interest element of lease rentals paid		–	(12)	(72)
Interest paid		–	–	(20,711)
Net cash (used in)/generated from financing activities		–	(220)	605,217
Net increase in cash		2,102	25,277	365,967
Cash at 1 January		1,969	4,071	29,348
Cash at 31 December		4,071	29,348	395,315

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in Renminbi ("RMB") unless otherwise indicated)

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Nanjing Zhangyu Information Technology Co., Ltd. (the "**Nanjing Zhangyu**") was incorporated in the People's Republic of China ("**PRC**") on 30 June 2020 with its registered office at No.713, Block C, Kechuang Headquarters Building, No.320 Pubin Road, Jiangpu Street, Nanjing, Jiangsu Province, the PRC.

The principal activities of Nanjing Zhangyu are development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software, technology consultant and technology services. The principal activities of the subsidiaries are disclosed in Note 12.

For the purpose of preparing the Historical Financial Information for the Relevant Periods, the Nanjing Zhangyu Group has consistently applied the accounting policies which conform with IFRSs issued by the IASB, that are effective for the accounting period beginning on 1 January 2023 throughout the Relevant Periods.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

As at the date of this report, Nanjing Zhangyu has interests in the following subsidiaries, all of which are private companies:

Name of company	Place and date of incorporation/ establishment	Particulars of registered and paid-up capital *RMB'000*	Percentage of equity attributed to Nanjing Zhangyu Direct	Indirect	Principal activities
Wuxi Sihai Technology Co., Ltd.* (無錫思海科技有限公司)	PRC, 26 March, 2015	5,000/4,000	80%	–	Development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software; technology consultation and technology services
Hangzhou Longkong Zhongguang Enterprise Holding Partnership (Limited Partnership) (杭州龍控中光企業控股合夥企業 (有限合夥))	PRC, 4 April, 2023	730,000/344,740	88%	–	Enterprise management consulting
Zhejiang Zhongguang New Energy Technology Co., Ltd (浙江中光新能源科技有限公司)	PRC, 8 January, 2018	1,124,514/1,124,514	–	45%	Provision of related technical and consultancy services
Woori (Qinghai) Operation and Maintenance Technology Co., Ltd.* (和力(青海)運維技術有限公司) (formerly known as Zhongguang (Qinghai) New Energy Science Technology Co., Ltd* (中光(青海)新能源技術有限公司))	PRC, 11 December, 2023	10,000/Nil	–	45%	Generation of electricity and operation of solar thermal power stations
Qinghai Zhongkong Solar Power Co., Ltd.* (青海中控太陽能發電有限公司)	PRC, 24 May, 2011	370,000/370,000	–	45%	Generation of electricity and operation of solar thermal power
Xinjiang Hami Public Control Solar Power Co., Ltd.* (新疆哈密眾控太陽能發電有限公司)	PRC, 17 November, 2017 (deregistered on 20 November, 2023)	–	–	–	N/A
Qinghai Cosin Solar Power Co., Ltd.* (青海可勝太陽能發電有限公司)	PRC, 20 October 2021	100,000/8,140	–	45%	Generation of electricity and operation of solar thermal power stations
Gansu Yumen Zhongkong Solar Power Co., Ltd.*# (甘肅玉門眾控太陽能發電有限公司)	PRC, 1 November, 2017	4,000/4,000	–	34%	Generation of electricity and operation of solar thermal power stations
Qinghai Zhongzkong Solar Power Co., Ltd. (青海眾控太陽能發電有限公司)	PRC, 8 November, 2019	100,000/8,090	–	45%	Generation of electricity and operation of solar thermal power stations

* The English translation of the company is for reference only. The official name is in Chinese.

\# Gansu Yumen Zhongkong Solar Power Co., Ltd was deregistered in 2024.

2 MATERIAL ACCOUNTING POLICIES

(a) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

(b) Use of estimation and judgement

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Functional and presentation currency

The Historical Financial Information are presented in Renminbi ("**RMB**"), which is Nanjing Zhangyu's functional currency. All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Nanjing Zhangyu Group. The Nanjing Zhangyu Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

For each business combination, the Nanjing Zhangyu Group measure any non-controlling interests ("**NCI**") at the NCI's proportionate share of the subsidiary's net identifiable assets.

NCI are presented in the consolidated statements of financial position within equity, separately from equity attributable to the equity shareholders of Nanjing Zhangyu. NCI in the results of the Nanjing Zhangyu Group are presented on the face of the consolidated statements of profit or loss and the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between NCI and the equity shareholders of Nanjing Zhangyu. Loans from holders of NCI and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statements of financial position depending on the nature of the liability.

Changes in the Nanjing Zhangyu Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Nanjing Zhangyu Group loses control of a subsidiary, it recognised the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in that former subsidiary is measured at fair value when control is lost.

In Nanjing Zhangyu's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates

An associate is an entity in which the Nanjing Zhangyu Group or Nanjing Zhangyu has significant influence, but not control or joint control, over the financial and operating policies.

An interest in an associate is accounted for using the equity method, unless it is classified as held for sale (or included in a disposal group classified as held for sale). They are initially recognised at cost, which includes transaction costs. Subsequently, the consolidated financial statements include the Nanjing Zhangyu Group's share of the profit or loss and other comprehensive income ("**OCI**") of those investees, until the date on which significant influence ceases.

When the Nanjing Zhangyu Group's share of losses exceeds its interest in the associate, the Nanjing Zhangyu Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Nanjing Zhangyu Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Nanjing Zhangyu Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Nanjing Zhangyu Group's net investment in the associate, after applying the expected credit losses (ECLs) model to such other long-term interests where applicable.

Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Nanjing Zhangyu Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent there is no evidence of impairment.

(f) Goodwill

Goodwill arising on acquisition of businesses is measured at cost less accumulated impairment losses and is tested annually for impairment (see Note 2(l)).

(g) Other investments in securities

The Nanjing Zhangyu Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Nanjing Zhangyu Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Nanjing Zhangyu Group determines fair value of financial instruments, see Note 27(d). These investments are subsequently accounted for as follows, depending on their classification.

(i) Non-equity investments

Non-equity investments held by the Nanjing Zhangyu Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income calculated using the effective interest method are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

– Equity securities designated at fair value through other comprehensive income ("**FVOCI**") – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses are recognised in profit or loss and computed in the same manner as if the financial asset was measured at amortised cost. The difference between the fair value and the amortised cost is recognised in OCI. When the investment is derecognised, the amount accumulated in OCI is recycled from equity to profit or loss.

– FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(h) Derivative financial instruments

The Nanjing Zhangyu Group holds derivative financial instruments to manage its foreign currency risk exposure. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequently, they are measured at fair value with changes therein recognised in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation.

(i) Property, plant and equipment

Property, plant and equipment is stated at cost, which includes capitalised borrowing costs, less accumulated depreciation and accumulated impairment losses.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

– Building and leasehold improvement	20 – 30 years
– Plant and machinery	10 – 30 years
– Electric generating facilities	10 – 30 years
– Office equipment	3 – 10 years
– Motor vehicles	5 years

Right-of-use assets is depreciated over the unexpired term of lease.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Intangible assets

Intangible assets, including patents and intellectual property resources ("**IP resources**"), that are acquired by the Nanjing Zhangyu Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, if any, and is generally recognised in profit or loss.

The estimated useful lives are as follows:

-	Patents	5 years
-	IP resources	10 years
-	Licence	25.4 years

Both the period and method of amortisation are reviewed annually.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) Leased assets

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

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Nanjing Zhangyu Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

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

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

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

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

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract if such modification is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

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

(l) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

The Nanjing Zhangyu Group recognises a loss allowance for expected credit losses ("**ECLs**") on the following items:

– financial assets measured at amortised cost (including cash, trade receivables and other receivables that are held for the collection of contractual cash flows which represent solely payments of principal and interest);

– contract assets.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

The expected cash shortfalls are discounted using the following discount rates where the effect is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

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

ECLs are measured on either of the following bases:

– 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and

– lifetime ECLs: these are the ECLs that result from all possible default events over the expected lives of the items to which the ECL model applies.

The Nanjing Zhangyu Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-months ECLs:

– financial instruments that are determined to have low credit risk at the reporting date; and

– other financial instruments for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

When determining whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition and when measuring ECLs, the Nanjing Zhangyu Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Nanjing Zhangyu Group's historical experience and informed credit assessment, that includes forward-looking information.

The Nanjing Zhangyu Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Nanjing Zhangyu Group considers a financial asset to be in default when:

– the debtor is unlikely to pay its credit obligations to the Nanjing Zhangyu Group in full, without recourse by the Nanjing Zhangyu Group to actions such as realising security (if any is held); or

– the financial asset is 540 days past due.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Nanjing Zhangyu Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in non-equity securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in OCI and accumulated in the fair value reserve (recycling) does not reduce the carrying amount of the financial asset in the statement of financial position.

Credit-impaired financial assets

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default;

– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

– it is probable that the debtor will enter bankruptcy or other financial reorganisation; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

(ii) Impairment of other non-current assets

At each reporting date, the Nanjing Zhangyu Group reviews the carrying amounts of its non-financial assets (other than inventories and other contract costs and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("**CGU**"s). Goodwill arising from a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use based on the estimated future cash flows, 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 CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Inventories and other contract costs

(i) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Net realisable value represents the estimated selling price less any estimated costs of completion and costs to be incurred in selling the property.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory, property, plant and equipment or intangible assets.

Incremental costs of obtaining a contract, e.g. sales commissions, are capitalised if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Otherwise, costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Amortisation of capitalised contract costs is recognised in profit or loss when the revenue to which the asset relates is recognised.

(n) Contract assets and contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Nanjing Zhangyu Group recognises the related revenue. A contract liability is also recognised if the Nanjing Zhangyu Group has an unconditional right to receive non-refundable consideration before the Nanjing Zhangyu Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

(o) Trade and other receivables

A receivable is recognised when the Nanjing Zhangyu Group has an unconditional right to receive consideration and only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost.

(p) Cash

Cash comprise cash at bank and on hand.

(q) Trade and other payables

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

(r) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequently, these interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with Note 2(w).

(s) Employee benefits

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

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Nanjing Zhangyu Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided.

(ii) Termination benefits

Termination benefits are expensed at the earlier of when the Nanjing Zhangyu Group can no longer withdraw the offer of those benefits and when the Nanjing Zhangyu Group recognises costs for a restructing.

(t) Income tax

Income tax expense comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;

– temporary differences related to investment in subsidiaries and associates to the extent that the Nanjing Zhangyu Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;

– taxable temporary differences arising on the initial recognition of goodwill; or

– those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Nanjing Zhangyu Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(u) Provisions and contingent liabilities

Generally provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under that contract and an allocation of other costs directly related to fulfilling that contract. Before a provision is established, the Nanjing Zhangyu Group recognises any impairment loss on the assets associated with that contract.

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

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

(v) Revenue and other income

Income is classified by the Nanjing Zhangyu Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Nanjing Zhangyu Group's business.

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

(i) Revenue from contracts with customers

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

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Nanjing Zhangyu Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

(a) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. Payment terms and conditions vary by customers and are based on the billing schedule established in the contracts or purchase orders with customers, but the Nanjing Zhangyu Group generally provides credit terms to customers within 30 to 90 days upon customer acceptance. The Nanjing Zhangyu Group takes advantage of the practical expedient in paragraph 63 of IFRS 15, *Revenue from Contracts with Customers* ("**IFRS 15**"), and does not adjust the consideration for any effects of a significant financing component as the period of financing is 12 months or less.

(b) Sale of electricity and tariff income

Revenue from the sale of electricity or steam and tariff income are recognised based upon output delivered. Under the transfer-of-control approach in IFRS 15, revenue from sales of electricity and tariff income is generally recognised upon transmission of electricity to the customers, which is the point of time when the customer has the ability to direct the use of the output and obtain substantially all of the remaining benefits of the output.

(c) Provision of technical and consultancy services

Revenue from provision of technical and consultancy services is recognised over time, using an output method to measure progress towards complete satisfaction of the service, because the customer of the Nanjing Zhangyu Group simultaneously receives and consumes the benefit provided by the Nanjing Zhangyu Group's performance as the Nanjing Zhangyu Group performs.

(ii) Revenue from other sources and other income

(a) Interest income

Interest income is recognised using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(b) Government grants

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

(w) Borrowing costs

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

(x) Asset acquisition

Groups of assets acquired and liabilities assumed are assessed to determine if they are business or asset acquisitions. On an acquisition-by-acquisition basis, the Nanjing Zhangyu Group chooses to apply a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

When a group of assets acquired and liabilities assumed do not constitute a business, the overall acquisition cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. An exception is when the sum of the individual fair values of the identifiable assets and liabilities differs from the overall acquisition cost. In such case, any identifiable assets and liabilities that are initially measured at an amount other than cost in accordance with the Nanjing Zhangyu Group's policies are measured accordingly, and the residual acquisition cost is allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of acquisition.

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Nanjing Zhangyu Group if that person:

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

(ii) has significant influence over the Nanjing Zhangyu Group; or

(iii) is a member of the key management personnel of the Nanjing Zhangyu Group or the Nanjing Zhangyu Group's parent.

(b) An entity is related to the Nanjing Zhangyu Group if any of the following conditions applies:

(i) The entity and the Nanjing Zhangyu Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

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

(z) Segment reporting

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

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Sources of estimation uncertainty

Note 27 contains information about the assumptions and their risk factors relating to valuation of financial instruments. Other significant source of estimation uncertainty is as follows:

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories writedown or the related reversals of write-down made in prior years and affect the Nanjing Zhangyu Group's net assets value. The Nanjing Zhangyu Group reassesses these estimates annually.

(b) Impairment of trade and other receivables

The Nanjing Zhangyu Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortised cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

(c) Impairment of goodwill

The carrying amount of goodwill and intangible assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. Goodwill is tested annually for impairment. The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset or cash-generating units are discounted to their present value, which requires significant judgement relating to the level of revenue, the amount of operating costs, and timing of cash flows. The Nanjing Zhangyu Group uses readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions with respect to customer demand, market conditions, projections of revenue and the amount of operating costs. Any change in the assumptions adopted in the cash flow forecast would increase or decrease the provision of impairment loss and affect the Nanjing Zhangyu Group’s net asset value.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Nanjing Zhangyu Group are engaged in the (i) chips research, design, sales and supply chain services, semiconductor, intellectual property authorisation business, and digital security products and services; and (ii) the supply of electricity with a focus on the production and sales of solar power as well as the provision of development consultation and technical services of the solar thermal power generation technology. Further details regarding the Nanjing Zhangyu Group's principal activities are disclosed in Note 12.

Disaggregation of revenue

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

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB’000	*RMB’000*	*RMB’000*
Digital technology and digital security	45,418	132,538	158,920
New energy and services	–	–	77,064
	45,418	132,538	235,984

As the Nanjing Zhangyu Group does not have material operations outside the PRC, no geographic segment information is presented.

All the income receipts right in relation to the sales of electricity was pledged as securities for bank loans of the Nanjing Zhangyu Group (see Note 22).

(b) Segment reporting

The Nanjing Zhangyu Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Nanjing Zhangyu Group’s chief operating decision maker (“**CODM**”) for the purposes of resource allocation and performance assessment, the Nanjing Zhangyu Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Digital technology and digital security: chips research, design, sales and supply chain services, semiconductor intellectual property authorization business, and digital security products and services.

– New energy and services: the supply of electricity with a focus on the production and sales of solar power as well as the provision of development consultation and technical services of the solar thermal power generation technology.

The Nanjing Zhangyu Group completed a business acquisition of Zhejiang Zhongguang New Energy Technology Co., Ltd. ("**Zhejiang Zhongguang**") as set out in Note 29 during the year ended 31 December 2023. CODM considered the reportable segments and the Nanjing Zhangyu Group's internal reporting according to the nature of business operations at each operating segment as shown above. CODM consider the business of Zhejiang Zhongguang is a new reportable segment.

(i) Information about reportable segments

For the purposes of assessing segment performance and allocating resources between segments, the Nanjing Zhangyu Group's CODM monitor the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is profit or loss before tax. Segment profit or loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

In addition to receiving segment information concerning segment results, management is provided with segment information concerning interest income, interest expense, depreciation and amortisation.

Segment assets and liabilities are not regularly reported to the Nanjing Zhangyu Group's CODM and therefore information of reportable segments assets and liabilities are not presented in the consolidated financial statements.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Nanjing Zhangyu Group's reportable segments as provided to the Nanjing Zhangyu Group's CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2021, 2022 and 2023 is set out below.

	Reportable segments Digital technology and digital security
	RMB'000
2021	
Disaggregated by timing of revenue recognition	
Point in time	45,418
Revenue from external customers	45,418
2022	
Disaggregated by timing of revenue recognition	
Point in time	132,538

	Reportable segments Digital technology and digital security
	RMB'000
Revenue from external customers	132,538

The Nanjing Zhangyu Group has a single reportable segment of Digital technology and digital security in 2021 and 2022.

	Reportable segments		
	Digital technology and digital security	**New energy and services**	**Total reportable segments**
	RMB'000	*RMB'000*	*RMB'000*
2023			
Disaggregated by timing of revenue recognition			
Point in time	158,920	77,064	235,984
Revenue from external customers	158,920	77,064	235,984
Segment profit before taxation	59,018	12,297	71,315
Interest income	115	3,823	3,938
Interest expense	(5,988)	(20,759)	(26,746)
Depreciation and amortisation expense	(1,796)	(21,308)	(23,103)
Share of profit of an associate	–	9	9

(ii) Information about major customers

Revenue from major customers which accounts for 10% or more of the Nanjing Zhangyu Group's revenue are as follows:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	5,830	N/A*	N/A*
Customer B	–#	15,658	N/A*
Customer C	–#	–#	77,064

* The corresponding revenue did not contribute over 10% of the total revenue of the Nanjing Zhangyu Group.

\# The Nanjing Zhangyu Group did not have revenue from the corresponding customers.

5 OTHER OPERATING INCOME

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Interest income	7	104	3,938
Government grants *(Note)*	1,041	3,366	1,572
Net gains on derivative financial assets	–	–	332
Net gains on financial asset measured at FVPL	–	–	24
Others	215	–	255
	1,263	3,470	6,121

Note: The amounts represent tax rebates and tax incentives received by the Nanjing Zhangyu Group in the PRC. No specific conditions are required to be met in connection with these grants.

6 OTHER OPERATING EXPENSES

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Research and development expenses	13,295	20,395	14,466
Others	–	–	133
	13,295	20,395	14,599

These research and development expenses were not capitalized as the Nanjing Zhangyu Group cannot demonstrate that an intangible asset exists that will generate probable future economic benefits.

7 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

(a) Interest expense

	Year ended 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Interest expense on bank loans	–	–	20,711
Interest expense on amount due to the immediate controlling party	–	–	5,963
Interest on lease liabilities	–	12	72
	–	12	26,746

(b) Staff costs

	Year ended 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Salaries and bonus	266	811	18,745
Contributions to defined contribution plans	2	10	1,467
Directors' remuneration	–	30	180
	268	851	20,392

Pursuant to the relevant regulations of the PRC government, Nanjing Zhangyu and its subsidiaries have participated in central pension schemes ("**the Schemes**") operated by local municipal government whereby Nanjing Zhangyu and its subsidiaries are required to contribute 24% of the basic salaries of their employees to the Schemes to fund their retirement benefits. The local municipal government undertake to assume the retirement benefit obligations of all existing and future retired employees of the Nanjing Zhangyu Group. The only obligation of Nanjing Zhangyu and its subsidiaries with respect to the Scheme is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to profit or loss as incurred.

(c) Other items

		Year ended 31 December		
		2021	**2022**	**2023**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Amortisation of intangible assets	*10*	–	206	4,586
Depreciation charge	*9*			
– owned property, plant and equipment		57	165	15,982
– right-of-use assets		–	205	2,535
		57	370	18,517
Auditor's remuneration		5	15	308

8 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

		Year ended 31 December		
		2021	**2022**	**2023**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Current tax expense				
Current year		–	2,956	8,054
Under-provision in prior years		–	–	795
		–	2,956	8,849
Deferred tax expense				
Origination of temporary differences	*24(b)*	–	–	1,034
Income tax expense		–	2,956	9,883

Note:

The statutory corporate income tax rate of the Nanjing Zhangyu Group's operating subsidiaries in the PRC is 25% for the Relevant Periods.

Nanjing Zhangyu is subject to a preferential income tax rate of 15% in 2021, 2022 and 2023 available to enterprises which qualify as a High and New Technology Enterprise.

Qinghai Zhongkong Solar Power Co., Ltd. ("**Qinghai Zhongkong**") is subject to a preferential income tax rate of 15% in 2023 available to enterprises which qualify as a High and New Technology Enterprise and is also entitled to preferential tax treatments including 3 years exemption followed by three years of a 50% tax reduction.

(b) Reconciliation between actual income tax expense and accounting (loss)/profit at applicable tax rates:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/profit before taxation	(553)	39,216	71,315
Tax using the PRC statutory tax rate of 25%	(138)	9,804	17,829
Effect of concessionary tax rate	111	(554)	(9,116)
Tax effect of non-deductible expenses	–	66	719
Additional deduction for qualified research and development costs		(4,707)	(2,960)
Under-provision in prior years	–	–	795
Tax effect of the unrecognised deferred tax asset of tax losses	27	–	2,616
Tax effect of usage of the unused tax losses not recognised in the prior years	–	(1,653)	–
Tax expense charged to profit or loss	–	2,956	9,883

9 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Right-of-use assets	Building and leasehold improvement	Plant and machinery	Electric generating facilities	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:								
Balance at 1 January 2021	–	–	–	–	183	–	–	183
Additions	–	–	–	–	406	–	–	406
Balance at 31 December 2021 and at 1 January 2022	–	–	–	–	589	–	–	589
Additions	352	–	–	–	76	380	–	808
Balance at 31 December 2022 and at 1 January 2023	352	–	–	–	665	380	–	1,397
Additions	5,498	102	–	–	2,127	457	559	8,743
Acquisition of subsidiaries *(Note 29)*	81,838	22,294	534	844,318	15,729	123	2,096	966,932
Acquisition of a subsidiary which does not constitute business *(Note 18(d))*	–	–	–	–	–	–	5,900	5,900
Disposals	–	–	–	–	(12)	–	–	(12)
Written-off	(352)	–	–	(5,653)	–	–	–	(6,005)
Balance at 31 December 2023	87,336	22,396	534	838,665	18,509	960	8,555	976,955

	Right-of-use assets	Building and leasehold improvement	Plant and machinery	Electric generating facilities	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accumulated depreciation:								
Balance at 1 January 2021	–	–	–	–	(15)	–	–	(15)
Charge for the year	–	–	–	–	(57)	–	–	(57)
Balance at 31 December 2021 and at 1 January 2022	–	–	–	–	(72)	–	–	(72)
Charge for the year	(205)	–	–	–	(123)	(42)	–	(370)
Balance at 31 December 2022 and at 1 January 2023	(205)	–	–	–	(195)	(42)	–	(442)
Charge for the year	(2,535)	(525)	(15)	(14,148)	(1,174)	(120)	–	(18,517)
Written back on disposals	–	–	–	–	11	–	–	11
Written-off	352	–	–	–	–	–	–	352
Balance at 31 December 2023	(2,388)	(525)	(15)	(14,148)	(1,358)	(162)	–	(18,596)
Net book value:								
At 31 December 2021	–	–	–	–	517	–	–	517
At 31 December 2022	147	–	–	–	470	338	–	955
At 31 December 2023	84,948	21,871	519	824,517	17,151	798	8,555	958,359

As at 31 December 2023, property, plant and equipment with carrying amounts of approximately RMB824,517,000 were pledged as securities for the Nanjing Zhangyu Group's bank loans (see Note 22).

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

		As at 31 December		
		2021	**2022**	**2023**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Ownership interests in leasehold land held for own use, carried at depreciated cost	*(i)*	–	–	78,659
Other properties leased for own use, carried at depreciated cost	*(ii)*	–	147	6,293
		–	147	84,952

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

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation charge of right-of-use assets by class of underlying asset:			
Ownership interests in leasehold land	–	–	1,789
Other properties leased for own use	–	205	746
	–	205	2,535
Expense relating to short-term leases	–	–	1,540

During the Relevant Periods, additions to right-of-use assets were nil, RMB352,000 and RMB5,498,000 for years ended 31 December 2021, 2022 and 2023. This amount is related to the capitalised lease payments payable under new tenancy agreements.

Notes:

(i) Ownership interests in leasehold land held for own use

During the year ended 31 December 2023, the Nanjing Zhangyu Group holds several leasehold land for its business, including the whole or part of undivided share in the land in the PRC, where its solar thermal power facilities are primarily located. The leases run for periods was 30 years. The Nanjing Zhangyu Group is the registered owner of these property interests. Lump sum payments were made upfront to acquire these property interests from the PRC government authorities, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Other properties leased for own use

During the years ended 31 December 2023 and 2022, the Nanjing Zhangyu Group has obtained the right to use other properties as its office through tenancy agreements. The leases typically run for an initial period of 5 years.

10 INTANGIBLE ASSETS

	Patents *(Note 1)* *RMB'000*	IP resources *(Note 2)* *RMB'000*	License *(Note 3)* *RMB'000*	Total *RMB'000*
Cost:				
At 1 January 2021, 31 December 2021 and 1 January 2022	–	–	–	–
Addition	–	4,964	–	4,964
Balance at 31 December 2022 and 1 January 2023	–	4,964	–	4,964
Addition	–	12,314	–	12,314
Acquisition of subsidiaries *(Note 19)*	15,616	–	173,366	188,982
Balance at 31 December 2023	15,616	17,278	173,366	206,260
Accumulated amortisation:				
At 1 January 2021, 31 December 2021 and 1 January 2022	–	–	–	–
Charge for the year	–	(206)	–	(206)
Balance at 31 December 2022 and 1 January 2023	–	(206)	–	(206)
Charge for the year	(626)	(1,118)	(2,842)	(4,586)
Balance at 31 December 2023	(626)	(1,324)	(2,842)	(4,792)
Carrying amount:				
At 31 December 2021	–	–	–	–
At 31 December 2022	–	4,758	–	4,758
At 31 December 2023	14,990	15,954	170,524	201,468

Note:

(1) The patents represent invention patents and utility model patents developed and possessed by the Nanjing Zhangyu Group which are primarily related to the technologies or hardware that are being used in the daily operation of the solar thermal molten salt energy storage power stations.

(2) The IP resources represent digital technology acquired by the Nanjing Zhangyu Group for the provision of digital technology services.

(3) The license represents electric power business license granted to Qinghai Zhongkong by National Development and Reform Commission for the solar thermal project.

The amortisation charge for the Relevant Periods is included in "cost of sales" and "other operating expense" in the consolidated statements of profit or loss. No impairment loss was recognised during the Relevant Periods.

11 GOODWILL

	RMB'000
Cost:	
At 1 January 2021, 31 December 2021, 1 January 2022, 31 December 2022 and 1 January 2023	–
Acquisition of subsidiaries *(Note 29)*	46,473
At 31 December 2023	46,473
Accumulated impairment losses:	
At 1 January 2021, 31 December 2021, 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	–
Carrying amount:	
At 31 December 2021	–
At 31 December 2022	–
At 31 December 2023	46,473

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Nanjing Zhangyu Group's CGUs identified according to country of operation and operating segment as follows:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
New energy and services business	–	–	46,473

New energy and services business

The recoverable amount of the CGU is determined based on value-in-use calculation. The Nanjing Zhangyu Group engaged an independent professional valuer to assist with the calculation. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions used in estimating the recoverable amount are as follows:

	2023
Average revenue growth rates	4.88%
Average operating profit margin	27.48%
Pre-tax discount rates	9.32%

Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate which is consistent with the forecasts included in industry reports and generally in line with 2023.

12 INVESTMENTS IN SUBSIDIARIES

The following table lists out the information relating to the subsidiaries of Nanjing Zhangyu which has material non-controlling interests.

Name of company	Place of incorporation and business	Operating segment	Proportion of effective interest held by NCI 2023	2022
Wuxi Sihai Technology Co., Ltd. ("**Wuxi Sihai**") (無錫思海科技有限公司)	PRC	Digital technology and digital security	20%	20%
Zhejiang Zhongguang New Energy Technology Co., Ltd. ("**Zhejiang Zhongguang**") (浙江中光新能源科技有限公司)	PRC	New energy and services	55%	–
Qinghai Zhongkong Solar Power Co., Ltd. ("**Qinghai Zhongkong**") (青海中控太陽能發電有限公司)	PRC	New energy and services	55%	–

2023

	Wuxi Sihai	Zhejiang Zhongguang *(Note)*	Qinghai Zhongkong *(Note)*	Other individually immaterial subsidiaries	Intra-group elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NCI percentage	20%	55%	55%			
Current assets	67,935	816,628	571,001			
Non-current assets	2,369	462,764	995,359			
Current liabilities	56,147	15,206	706,321			
Non-current liabilities	–	3,039	490,780			
Net assets	14,157	1,261,147	369,259			
Identified intangible assets acquired	762	4,478	212,562			
Carrying amount of NCI	2,984	696,094	320,002	754	(260,400)	759,434
Revenue	74,661	10,571	77,054			
Profit for the year	5,172	42,065	27,852			
Total comprehensive income	5,172	42,065	27,852			
Net effect on amortisation of identified intangible assets acquired	(1,681)	(218)	(5,078)			
Profit/(loss) and total comprehensive income allocated to NCI	698	23,016	12,526	678	(25,158)	11,760
Dividend paid to NCI	–	–	–	–	–	–
Cash flows (used in)/from operation activities	(6,453)	(2,361)	84,316			
Cash flows used in investing activities	(1,873)	(343,309)	(1,200)			
Cash flows from financing activities	4,000	–	139,148			

2022

	Wuxi Sihai
	RMB'000
NCI percentage	20%
Current assets	38,313
Non-current assets	665
Current liabilities	33,980
Net assets	4,998
Carrying amount of NCI	999
Revenue	56,597
Profit for the year	4,102
Total comprehensive income	4,102
Profit and total comprehensive income allocated to NCI	820
Dividend paid to NCI	–
Cash flows from operation activities	9,792
Cash flows used in investing activities	(430)
Cash flows from financing activities	–

Note:

On 21 July 2023, the Nanjing Zhangyu Group, through a non-wholly owned subsidiary, acquire 51% equity interest of Zhejiang Zhongguang. Zhejiang Zhongguang and its subsidiaries became non-wholly owned subsidiaries of the Nanjing Zhangyu Group since then (See Note 29). Accordingly, the profit and loss and cash flow information relating to these subsidiaries is only for the period from 22 July 2023 to 31 December 2023.

13 INTEREST IN AN ASSOCIATE

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Cost of investment in an associate	–	–	4,169
Share of post-acquisition losses	–	–	9
	–	–	4,178

As at 31 December 2023

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest Held by Nanjing Zhangyu	Held by a subsidiary	Principal activities
Zhejiang Zhongguang Electric Power Engineering Co., Ltd. ("**Zhongguang Electric**") (浙江中光電力工程有限公司)	Limited liability Company	The PRC	RMB100 million/ RMB30 million	–	15%	Generation of electricity and operation of solar thermal power stations

	Zhongguang Electric 2023 *RMB'000*
Gross amounts of the associate's	
Current assets	27,909
Non-current assets	2
Current liabilities	55
Net assets	27,856
Revenue	–
Income from continuing operations	57
Total comprehensive income	57
Reconciled to the Nanjing Zhangyu Group's interests in the associate	
Gross amounts of net assets of the associate	27,856
The Nanjing Zhangyu Group's effective interest	15%
The Nanjing Zhangyu Group's share of net assets of the associate	4,178
Carrying amount in the consolidated financial statements	4,178

On 14 June 2018, Zhongguang Electric was established by Zhejiang Zhongguang and other five independent third parties, among which Zhejiang Zhongguang injected capital contribution of RMB4,500,000 and has a 15% equity interest. The Nanjing Zhangyu Group is able to appoint a director in the board of directors of Zhongguang Electric and therefore the directors of the Nanjing Zhangyu Group consider that Zhejiang Zhongguang has significant influence over Zhongguang Electric.

The Nanjing Zhangyu Group, through a non-wholly owned subsidiary, acquire 51% equity interest of Zhejiang Zhongguang. Zhejiang Zhongguang and its subsidiaries became non-wholly owned subsidiaries of the Nanjing Zhangyu Group since then (See Note 29).

14 TIME DEPOSIT

	As at 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Time deposit	–	–	20,000

The time deposit with interest rate of 3.55% per annum will be matured in January 2025.

The Group's exposure to credit risk is disclosed in Note 27(a).

15 PLEDGED DEPOSIT

	As at 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Pledged deposit for bank facilities	–	–	35,000

As at 31 December 2023, the pledged deposit was pledged to banks as guarantees for issuance of banking facilities (see Note 22). Pledged deposit bears interest at an average effective interest rates at 2.9770% per annum and for 156 months. The pledged deposit will be released by the expiry of relevant banking facilities.

16 INVENTORIES AND OTHER CONTRACT COSTS

(a) Inventories and other contract costs in the consolidated statements of financial position comprise:

	As at 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Inventories – Finished goods	–	72	7,350
Other contract costs	–	318	2,821
	–	390	10,171

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

	Year ended 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories sold	–	32,230	52,136

All of the inventories are expected to be recovered within one year.

17 TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
– Amounts due from third parties	2,976	7,455	272,806
– Amount due from a fellow subsidiary *(Note 30(c))*	–	2,890	–
Bills receivables	–	–	7,646
Trade and bills receivables	2,976	10,345	280,452
Other receivables			
– Amounts due from third parties	200	45	–
– Amounts due from staff	750	–	150
– Amount due from a fellow subsidiary *(Note 30(c))*	–	9,571	30,507
– Amount due from the immediate controlling party *(Note 30(c))*	–	17,500	17,500
– Amount due from a director	19,473	–	–
Prepayments	12,751	26,356	58,152
Government grant receivables	700	–	–
Refundable deposits	20	106	11,348
Tax recoverable	–	–	41
	33,894	53,578	117,698
	36,870	63,923	398,150

The amounts due from third parties, a fellow subsidiary and the immediate controlling party are unsecured, non interest bearing and repayable on demand.

The Nanjing Zhangyu Group's exposure to credit risk and foreign currency risks related to trade and other receivables are disclosed in Note 27(a).

Ageing analysis

The Nanjing Zhangyu Group allows a credit period ranging from 30 to 90 days to its trade customers except provincial grid companies.

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date, is as follows:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 6 months	2,976	7,455	118,034
7 to 12 months	–	–	57,496
1 to 2 years	–	–	53,230
Over 2 years	–	–	51,692
	2,976	7,455	280,452

As at 31 December 2023, among the trade and other receivables balance, the trade receivables amounting to RMB249,294,000, which includes solar energy electricity sales receivables amounting to RMB3,455,000 and tariff premium receivables amounting to RMB245,839,000, respectively, from provincial grid companies. Generally, the receivables are due within 30 days to 90 days from the date of billing, except for the tariff premium. The collection of such tariff premium is subject to the allocation of funds by relevant government authorities to local grid companies, which therefore takes a relatively long time for settlement.

Pursuant to CaiJian [2012] No.102 Notice on the Interim Measures for Administration of Subsidy Funds for Tariff Premium of Renewable Energy (可再生能源電價附加補助資金管理暫行辦法) jointly issued by the Ministry of Finance, the National Development and Reform Commission and the National Energy Administration in March 2012, a set of standardised procedures for the settlement of the tariff premium has come into force since 2012 and approvals on a project by project basis are required before the allocation of funds to local grid companies. As at 31 December 2023, all of the Nanjing Zhangyu Group's operating projects have been approved for the tariff premium.

As at 31 December 2023, the trade receivables and bill receivables from provincial grid companies amounting to RMB249,294,000 and RMB7,646,000, respectively, were pledged as securities for the Nanjing Zhangyu Group's bank loans (see Note 22).

Trade receivables from provincial grid companies that were neither past due nor impaired mainly represented the electricity sales receivable from local grid companies for whom there was no recent history of default. Other trade and bills receivables are due within 30 to 90 days from the date of billing. Further details on the Group's credit policy and credit risk arising for trade and bills receivable are set out in Note 27(a).

18 CASH AND OTHER CASH FLOW INFORMATION

(a) Cash comprise:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and cash in the consolidated statements of financial position and in the consolidated statements of cash flow	4,071	29,348	395,315

(b) Reconciliation of liabilities arising from financing activities:

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

	Bank loans *RMB'000* *(Note 22)*	Amount due to the immediate controlling party *RMB'000* *(Note 21)*	Lease liabilities *RMB'000* *(Note 23)*	Total *RMB'000*
At 1 January 2021, 31 December 2021 and 1 January 2022	–	–	–	–
Changes from financing cash flows:				
Capital element of lease rentals paid	–	–	(208)	(208)
Interest element of lease rentals paid	–	–	(12)	(12)
Total changes from financing cash flows	–	–	(220)	(220)
Other changes:				
Increase in lease liabilities from entering new leases during the year	–	–	352	352
Interest expense	–	–	12	12
Total other changes	–	–	364	364
At 1 January 2023	–	–	144	144
Changes from financing cash flows:				
Advance from the immediate controlling party	–	250,000	–	250,000
Proceeds from bank loans	397,240	–	–	397,240
Repayment of bank loans	(110,368)	–	–	(110,368)
Capital element of lease rentals paid	–	–	(872)	(872)
Interest element of lease rentals paid	–	–	(72)	(72)
Interest expense paid	(20,711)	–	–	(20,711)
Total changes from financing cash flows	266,161	250,000	(944)	515,217

	Bank loans *RMB'000* *(Note 22)*	Amount due to the immediate controlling party *RMB'000* *(Note 21)*	Lease liabilities *RMB'000* *(Note 23)*	Total *RMB'000*
Other changes:				
Increase in lease liabilities from entering new leases during the year	–	–	5,498	5,498
Interest expense	20,711	5,963	72	26,746
Acquisition of subsidiaries *(Note 29)*	602,296	–	1,609	603,905
Total other changes	623,007	5,963	7,179	636,149
At 31 December 2023	889,168	255,963	6,379	1,151,510

(c) Total cash outflow for leases

Amounts included in the consolidated statements of cash flows for leases comprise the following:

	Year ended 31 December		
	2021 *RMB'000*	**2022** *RMB'000*	**2023** *RMB'000*
Within operating cash flows	–	–	1,540
Within financing cash flows	–	220	944
	–	220	2,484

These amounts relate to the following:

	Year ended 31 December		
	2021 *RMB'000*	**2022** *RMB'000*	**2023** *RMB'000*
Lease rentals paid	–	220	2,484

(d) Net cash outflow arising from the acquisition of a subsidiary which does not constitute business

The recognised amounts of assets acquired and liabilities at the date of acquisition of the subsidiary which does not constitute business comprise the following:

	Year ended 31 December 2023
	RMB'000
Construction in progress *(Note 9)*	5,900
Cash	2,044
Other payables	(50)
Total consideration paid in cash	7,894
Less: cash of subsidiary acquired	(2,044)
	5,850

On 24 November 2023, the Nanjing Zhangyu Group entered into an agreement to acquire 100% equity interest in Qinghai Cosin Solar Power Co., Ltd. (青海可勝太陽能發電有限公司) ("**Qinghai Cosin**") at a total consideration of RMB7,894,000. The principal activities of Qinghai Cosin and its subsidiary are solar thermal power electricity generation and the provision of related technical and consultancy services, and its identifiable assets are mainly construction in progress and cash. The transaction was completed in November 2023 and recognised as an acquisition of assets, rather than a business combination, given that Qinghai Cosin and its subsidiary do not constitute a business.

19 FINANCIAL ASSETS MEASURED AT FVPL

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Wealth management product	–	–	2,949

Wealth management products represented the Nanjing Zhangyu Group's investment in a wealth management product issued by commercial banks. The product has no specified maturity and is repayable on demand. As at 31 December 2023, the wealth management product was measured at fair values. The expected annual return rate is 1.88% as at 31 December 2023.

20 DERIVATIVE FINANCIAL ASSETS

	Fair value
	RMB'000
As at 31 December 2023	
Price forward contracts – not under hedge accounting	82,041

The fair value changes of above derivative financial instruments were recognised in profit or loss.

The analysis on the fair value measurement of the above financial instruments is disclosed in Note 27(d).

21 TRADE AND OTHER PAYABLES

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	1,550	828	52,120
Contract liabilities	16,638	35,872	53,977
Other payables			
– Amount due to the immediate controlling party *(Note)*	–	–	255,963
– Amounts due to third parties	2,011	264	8,865
– Acquisition consideration payable *(Note 29)*	–	–	2,782
– Salaries and benefits payables	44	386	7,238
– Value added tax and other taxes payable	50	1,574	2,513
	18,743	38,096	331,338
	20,293	38,924	383,458

Note: Amount due to the immediate controlling party is interest-bearing at 4.9% per annum, unsecured and repayable within one year.

Amount due to third parties is unsecured, non interest-bearing and repayable on demand.

Movements in contract liabilities during the Relevant Periods are as follows:

	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January	10	14,371	29,246
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(10)	(14,371)	(29,246)
Increase in contract liabilities as a result of billing in advance of manufacturing activities	14,371	29,246	53,977
Balance at 31 December	14,371	29,246	53,977

All of the trade and other payables (including amounts due to related parties), are expected to be settled or recognised as income within one year or are repayable on demand.

The credit period granted by trade creditors generally range from 60 to 180 days. As of the end of the reporting period, the ageing analysis of trade payable, based on the invoice date, is as follows:

	As at 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
0 – 90 days	1,550	693	26,911
91 – 180 days	–	135	26
181 – 360 days	–	–	42
Over 360 days	–	–	25,141
	1,550	828	52,120

22 BANK LOANS

		As at 31 December		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Secured bank loans	*(i)*	–	–	41,247
Unsecured bank loans	*(ii)*	–	–	11,556
		–	–	52,803
Non-current				
Secured bank loans	*(i)*	–	–	874,612
Unsecured bank loans	*(ii)*	–	–	14,556
Less: Secured bank loan – current		–	–	(41,247)
Unsecured bank loans – current		–	–	(11,556)
		–	–	836,365
		–	–	889,168
Carrying amount of bank loans repayable:				
Within 1 year or on demand		–	–	52,803
More than 1 year but not exceeding 2 years		–	–	43,736
More than 2 years but not exceeding 5 years		–	–	254,716
Over 5 years		–	–	537,913
		–	–	889,168
Less: Amounts due within 1 year shown under current liabilities		–	–	(52,803)
Amounts due after 1 year shown under non-current liabilities		–	–	836,365

Notes:

(i) The secured bank loans were secured by the income receipts right in relation to the sales of electricity and property, plant and equipment of the Nanjing Zhangyu Group at an interest rate of 4.25 – 4.70% per annum. The secured bank loans are subject to the fulfilment of covenants related to certain financial ratios of the Nanjing Zhangyu Group, as are commonly found in lending arrangements with financial institutions. The Nanjing Zhangyu Group regularly monitors its compliance with the covenants. None of the covenants related to drawn down facilities were breached or no covenants are required during the Relevant Periods. An analysis of the carrying value of these assets is as follows:

	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Electric generating facilities *(Note 9)*	–	–	824,517
Trade and bills receivables *(Note 17)*	–	–	256,940
Pledged deposit *(Note 15)*	–	–	35,000
	–	–	1,116,457

(iii) The unsecured bank loans carried interest at annual rates within 3.45 – 4.00% per annum and were all repayable within one year.

(iv) As at 31 December 2023, all bank loans are denominated in RMB.

23 LEASE LIABILITIES

At 31 December 2021, 2022 and 2023, the lease liabilities were repayable as follows:

	As at 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Current			
Within 1 year	–	144	2,916
Non-current			
After 1 year but within 2 years	–	–	2,583
After 2 years but within 5 years	–	–	880
	–	–	3,463
	–	144	6,379

24 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	–	–	2,881
Provision for PRC Corporate Income Tax for the year	–	2,956	8,849
Income tax paid	–	(75)	(8,440)
At the end of the year	–	2,881	3,290

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

	At 1 January 2021, 31 December 2021, 1 January 2022, 31 December 2022, 1 January 2023	Recognised in profit or loss	Acquisition of subsidiaries	At 31 December 2023
	RMB'000	*RMB'000*	*RMB'000* *(Note 29)*	*RMB'000*
Lease liabilities	–	650	18	668
Right-of-use assets	–	(670)	–	(670)
Deferred income	–	(274)	–	(274)
Accumulated share of loss on an associate	–	(2)	82	80
Accumulated loss	–	(863)	4,610	3,747
Amortisation and depreciation on intangible assets and property, plant and equipment identified in business combination	–	125	(9,927)	(9,802)
Total	–	(1,034)	(5,217)	(6,251)

Deferred tax assets/(liabilities) are recognised to the extent that realisation of the related tax benefits through future taxable profits is probable.

(ii) Reconciliation to the consolidated statements of financial position

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Net deferred tax assets recognised in the consolidated statements of financial position	–	–	4,102
Net deferred tax liabilities recognised in the consolidated statements of financial position	–	–	(10,353)
	–	–	(6,251)

(c) Deferred tax assets not recognised

As at 31 December 2021 and 2023, the Nanjing Zhangyu Group has unused tax losses of RMB6,611,000 and RMB25,453,000 respectively which will expire in 2026 and 2028 respectively. As at 31 December 2023, a deferred tax asset has been recognised in respect of RMB14,988,000 of such losses. As at 31 December 2021 and 2023, the Nanjing Zhangyu Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB6,611,000 and RMB10,465,000 respectively, mainly incurred by subsidiaries in the PRC, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses incurred by subsidiaries in the PRC will expire within 5 years from the year when such losses were incurred under current tax legislation.

25 DEFERRED INCOME

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Deferred income	–	–	26

The amount represents deferred revenue arising as a result of the special fund received from local government to support the Nanjing Zhangyu Group's project of transformation of science and technology achievements in the PRC. The grants are related to assets and will be recognised as other income in profit or loss over a period of 5 years.

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Nanjing Zhangyu Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in Nanjing Zhangyu's individual components of equity between the beginning and the end of the Relevant Periods are set out below:

Nanjing Zhangyu

	Paid-in capital	General reserves (Reserves)	(Accumulated losses)/ Retained profits (Reserves)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	20,000	–	(136)	19,864
Changes in equity for 2021:				
Loss and total comprehensive expenses for the year	–	–	(289)	(289)
Balance at 31 December 2021	20,000	–	(425)	19,575
Balance at 1 January 2022	20,000	–	(425)	19,575
Changes in equity for 2022:				
Profit and total comprehensive income for the year	–	–	32,851	32,851
Transfer to general reserves	–	3,152	(3,152)	–
Balance at 31 December 2022	20,000	3,152	29,274	52,426
Balance at 1 January 2023	20,000	3,152	29,274	52,426
Changes in equity for 2023:				
Profit and total comprehensive income for the year	–	–	43,122	43,122
Transfer to general reserves	–	2,870	(2,870)	–
Balance at 31 December 2023	20,000	6,022	69,526	95,548

(b) Dividends

No dividends were declared or paid by Nanjing Zhangyu during the Relevant Periods.

(c) Share capital

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-in capital	20,000	20,000	20,000

(d) Nature and purpose of reserves

(i) General reserves

General reserves represent the statutory and discretionary reserve arising from the Nanjing Zhangyu Group.

In the PRC, at least 10% of the statutory profits after tax as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the statutory reserve until the cumulative total of the statutory reserves reach 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The statutory reserves in the PRC are not available for dividend distribution to shareholders.

(e) Capital management

The Nanjing Zhangyu Group manages its capital to ensure that entities in the Nanjing Zhangyu Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance, and to ensure that all externally imposed capital requirements are complied with. The Nanjing Zhangyu Group's overall strategy remains unchanged from prior year.

The capital structure of the Nanjing Zhangyu Group consists of debt and equity, which includes equity attributable to equity shareholders of Nanjing Zhangyu, comprising share capital and reserves.

The Nanjing Zhangyu Group's management reviews the capital structure on an on-going basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital and reserves. Based on recommendations of management, the Nanjing Zhangyu Group will balance its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt.

Management monitors capital based on the Nanjing Zhangyu Group's debt-to-assets ratio. This ratio is calculated as total liabilities divided by total assets.

As at the end of the reporting period, the Nanjing Zhangyu Group is in compliance with all capital requirements on its external borrowings.

The debt-to-assets ratio at the end of the reporting period is as follows:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Total liabilities	20,293	41,949	1,292,674
Total assets	41,458	99,374	2,158,206
Debt-to-assets ratio	49%	42%	60%

27 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Exposure to credit, liquidity and interest rate arises in the normal course of the Nanjing Zhangyu Group's business.

The Nanjing Zhangyu Group's exposure to these risks and the financial risk management policies and practices used by the Nanjing Zhangyu Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Nanjing Zhangyu Group. The Nanjing Zhangyu Group's credit risk is primarily attributable to trade receivables. The Nanjing Zhangyu Group's exposure to credit risk arising from cash, time deposits and pledged deposits are limited because the counterparties are mainly reputable financial institutions with high credit standing, for which the Nanjing Zhangyu Group considers to have low credit risk.

The Nanjing Zhangyu Group does not provide any guarantees which would expose the Nanjing Zhangyu Group to credit risk.

Trade receivables

The Nanjing Zhangyu Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Nanjing Zhangyu Group has significant exposure to individual customers.

As at 31 December 2021, 2022 and 2023, the directors of Nanjing Zhangyu are of the opinion that the amounts due from provincial power grid companies are fully recoverable considering that there are no loss experienced with the grid companies in the past and the tariff premium is funded by the PRC government.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. As at 31 December 2021, 2022 and 2023, trade receivables are aged within 180 days from the date of billing, except for the tariff premium. Normally, the Nanjing Zhangyu Group does not obtain collateral from customers.

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Nanjing Zhangyu Group's view of economic conditions over the expected lives of the receivables. As the Nanjing Zhangyu Group's receivables are mainly due from the power grid companies which are controlled by the PRC government and digital security companies of which credit level is high and have no historical loss, the expected loss rates used in calculation of the ECLs is nil in the Relevant Periods.

Bill receivables

Bill receivables has no credit risk as the bill receivables are issued by reputable banks.

Other receivables and amounts due from a fellow subsidiary, the immediate controlling party and third parties

The credit risk of other receivables and amounts due from a fellow subsidiary, the immediate controlling party and third parties are managed through an internal process. The credit quality of each counterparty is investigated before an advance is made. The Nanjing Zhangyu Group also actively monitors the outstanding amounts owed by each debtor and identifies any credit risks in a timely manner in order to reduce the risk of a credit related loss. Further, the Nanjing Zhangyu Group closely monitors the financial performance of the related parties. In this regard, the directors of the Nanjing Zhangyu Group consider that the Nanjing Zhangyu Group's credit risk is significantly reduced.

For other receivables and amounts due from a fellow subsidiary, the immediate controlling party and third parties, the directors of the Nanjing Zhangyu Group consider the counterparties with good credit worthiness based on past repayment history. In the opinion of the directors of the Nanjing Zhangyu Group, the risk of default by these counterparties is not significant and the Nanjing Zhangyu Group assessed that the ECL on these balances are insignificant. The expected loss rates used in calculation of the ECLs is nil in the Relevant Periods.

(b) Liquidity risk

Individual operating entities within the Nanjing Zhangyu Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Nanjing Zhangyu Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Nanjing Zhangyu Group's non-derivative financial liabilities and derivative financial instruments, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Nanjing Zhangyu Group can be required to pay:

	Contractual cash flows					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2021						
Trade and other payables	5,874	–	–	–	5,874	5,874
At 31 December 2021	5,874	–	–	–	5,874	5,874

	Contractual cash flows					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2022						
Trade and other payables	8,104	–	–	–	8,104	8,104
Lease liabilities	145	–	–	–	145	144
At 31 December 2022	8,249	–	–	–	8,249	8,248

	Contractual cash flows					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Over 5 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2023						
Bank loans	89,954	78,942	358,114	579,448	1,106,458	889,168
Trade and other payables	326,968	–	–	–	326,968	326,968
Lease liabilities	3,212	2,665	801	–	6,678	6,379
At 31 December 2023	420,134	81,607	358,915	579,448	1,440,104	1,222,515

(c) Interest rate risk

The Nanjing Zhangyu Group is exposed to fair value interest rate risk in relation to fixed-rate loan due to the immediate controlling party, fixed-rate bank loans, fixed-rate time deposits and fixed-rate pledged bank deposits. The Nanjing Zhangyu Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank loans. The Nanjing Zhangyu Group's cash flow interest risk is mainly concentrated on the fluctuation of benchmark rate for the bank loans.

(i) Sensitivity analysis

Fair value sensitivity analysis for fixed-rate instruments

The Nanjing Zhangyu Group does not account for any fixed-rate financial assets and liabilities at fair value through profit or loss, and the Nanjing Zhangyu Group does not use derivatives to hedge interest rate risk. Therefore, in respect of the fixed rate instrument, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments

The Nanjing Zhangyu Group's exposure to interest rate risk is minimal and no sensitivity to interest rate risk is presented.

(d) Fair value measurement

(i) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Nanjing Zhangyu Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount		
	FVPL	**Amortised cost**	**Total carrying amount**
	RMB'000	*RMB'000*	*RMB'000*
31 December 2021			
Financial assets measured not at fair value			
Trade and other receivables	–	25,406	25,406
Financial liabilities measured not at fair value			
Trade and other payables	–	5,874	5,874

	Carrying amount		
	FVPL	Amortised cost	Total carrying amount
	RMB'000	*RMB'000*	*RMB'000*
31 December 2022			
Financial assets measured not at fair value			
Trade and other receivables	–	37,611	37,611
Financial liabilities measured not at fair value			
Trade and other payables	–	8,104	8,104
Lease liabilities	–	144	144
	–	8,248	8,248

	Carrying amount		
	FVPL	Amortised cost	Total carrying amount
	RMB'000	*RMB'000*	*RMB'000*
31 December 2023			
Financial assets measured at fair value			
Other investments	2,949	–	2,949
Derivative financial assets	82,041	–	82,041
	84,990	–	84,990
Financial assets measured not at fair value			
Trade and other receivables	–	340,437	340,437
Time deposits	–	20,000	20,000
Cash	–	395,315	395,315
Pledged deposit	–	35,000	35,000
	–	790,752	790,752
Financial liabilities measured not at fair value			
Trade and other payables	–	326,968	326,968
Bank loans	–	889,168	889,168
Lease liabilities	–	6,379	6,379
	–	1,222,515	1,222,515

At 31 December 2023, all the financial assets measured at fair value were categorised as Level 2. During the years ended 31 December 2021, 2022 and 2023, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Nanjing Zhangyu Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair values of the wealth management product (note 19) in Level 2 have been calculated by using asset approach. The fair value of the net asset of the wealth management product was RMB2,949,000 as at 31 December 2023.

The fair value of forward contracts (note 20) in Level 2 is determined by discounting the difference between the contractual forward price and the current forward price. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

(ii) Financial assets and liabilities carried at other than fair value

All financial instruments measured at other than fair value are carried at cost or amortised cost which are approximate their fair values as at 31 December 2021, 2022 and 2023.

28 COMMITMENTS

Commitments outstanding at 31 December 2021, 2022 and 2023 not provided for in the consolidated financial statements were as follows:

	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Contracted for but not provided for property, plant and equipment	–	–	10,306

29 BUSINESS COMBINATION

2023 Acquisition of Zhejiang Zhongguang

On 21 July 2023, Nanjing Zhangyu's subsidiary, Hangzhou Longkong Zhongguang Enterprise Holding Partnership (Limited partnership) ("**Hangzhou Longkong**") entered into an equity purchase agreement with shareholders of Zhejiang Zhongguang to acquire 51% equity interest of Zhejiang Zhongguang at a consideration of RMB729,172,000. Zhejiang Zhongguang and its subsidiaries ("**Zhejiang Zhongguang Group**") are principally engaged in solar thermal power electricity generation as well as the provision of related technical and consultancy services.

(i) The major components of assets and liabilities arising from the acquisition of Zhejiang Zhongguang Group are as follows:

	Notes	Pre-acquisition carrying amount RMB'000	Fair value adjustment RMB'000	Recognised values on acquisition RMB'000
Property, plant and equipment	*9*	898,987	67,945	966,932
Intangible assets *(Note)*	*10*	516	188,466	188,982
Interest in an associate		4,169	–	4,169
Deferred tax assets		39,965	(35,255)	4,710
Financial asset measured at FVPL		2,925	–	2,925
Inventories and other contract costs		998	–	998
Trade and other receivables		297,847	–	297,847
Cash	*29(iii)*	520,513	–	520,513
Pledged deposit		35,000	–	35,000
Trade and other payables		(68,175)	–	(68,175)
Bank loans		(602,296)	–	(602,296)
Lease liabilities	*23(b)*	(1,609)	–	(1,609)
Deferred tax liabilities	*24(b)*	(171)	(9,756)	(9,927)
Deferred income		(46,959)	46,959	–
Net identifiable assets		1,081,710	258,359	1,340,069

Note:

Intangible assets arising from the acquisition mainly represent an electric power business license and patents. The Nanjing Zhangyu Group has engaged an external valuation firm to perform fair value assessments on these intangible assets in accordance with IAS 38 Intangible Assets and IFRS 3 Business Combination. The valuation techniques used for measuring fair value are multi-period excess-earnings method and relief-from-royalty method. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the electric power business license, by excluding any cash flows related to contributory assets. The relief-from royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents being owned.

(ii) Set forth below is the calculation of goodwill:

	Note	RMB'000
Consideration		
– cash paid in 2023		726,390
– acquisition consideration payable *(Note 21)*		2,782
Total consideration		729,172
Less: fair value of net identifiable net assets acquired	*29(i)*	(1,340,069)
Add: non-controlling interests		657,370
Goodwill *(Note 11)*		46,473

(iii) Net cash outflow arising on the acquisition:

	RMB'000
Consideration paid in cash during the year	726,390
Less: cash acquired	(520,513)
	205,877

(iv) Impact of acquisition on the results of the Nanjing Zhangyu Group

From the date of acquisition to 31 December 2023, Zhejiang Zhongguang Group contributed revenue of RMB77,064,000 and net profit of RMB21,727,000 (including amortisation of identified intangible assets).

The consolidated revenue and net profit of the Nanjing Zhangyu Group for the year ended 31 December 2023 would have been RMB391,733,000 and RMB102,909, respectively had the acquisition been completed as at 1 January 2023.

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Nanjing Zhangyu Group, including amounts paid to Nanjing Zhangyu's directors and certain of the highest paid employees is as follows:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	30	36	2,026

(b) Significant related party transactions

During the year, the Nanjing Zhangyu Group entered into the following material related party transactions:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Render service to:			
A fellow subsidiary	–	2,890	–
Interest expenses charged by:			
the immediate controlling party	–	–	5,963

(c) Balances with related parties

The outstanding balances arising from above transactions at the end of the reporting period are as follows:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Amount due to the immediate controlling party *(Note 21)*	–	–	255,963
Trade receivable due from a fellow subsidiary *(Note 17)*	–	4,564	–
Other receivable due from a fellow subsidiary *(Note 17)*	–	9,571	30,507
Other receivable due from the immediate controlling party *(Note 17)*	–	17,500	17,500

Note: The amount due from a fellow subsidiary is unsecured, interest-free and repayable within one year.

31 NON-ADJUSTMENT EVENT AFTER THE REPORTING PERIOD

In January 2024, Nanjing Zhangyu entered into an equity purchase agreement with the non-controlling shareholder of Wuxi Sihai to acquire 10% equity interest of Wuxi Sihai.

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2023, the directors of Nanjing Zhangyu consider the immediate parent and ultimate controlling party of Nanjing Zhangyu to be Xinkexin (Suzhou) Technology Co., Ltd. and Mr. Cui Wei, respectively.

33 MAJOR NON-CASH TRANSACTION

During the years ended 31 December 2022 and 2023, there were non-cash additions to right-of-use assets and lease liabilities of RMB352,000 and RMB5,502,000, respectively, in respect of new lease arrangements for office premises.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Nanjing Zhangyu Group has not early applied the following amendments to IFRSs that have been issued but are not yet effective.

	Effective for accounting periods beginning on or after
Amendments to IFRS10, *Consolidated financial statements*	To be determined
Amendments to IAS 28, *Investments in Associates and joint Ventures*	To be determined
Amendments to IAS 7 and IFRS 7, *Supplier Finance Arrangements*	1 January 2024
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2024
Amendments to IAS 1, *Non-current Liabilities with Covenants*	1 January 2024
Amendments to IFRS 16, *Lease Liability in a Sale and Leaseback*	1 January 2024
Amendments to IAS 21, *Lack of Exchangeability*	1 January 2025

The directors of the Nanjing Zhangyu Group anticipate that the application of the above amendments to IFRSs will have no material impact on the financial performance and positions of the Nanjing Zhangyu Group in the foreseeable future.

35 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Nanjing Zhangyu Group in respect of any period subsequent to 31 December 2023.

The following is the text of a report set out on pages IIB-1 to IIB-41, received from the Company's reporting accountants, CL Partners CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF SHANGHAI ZHANGYU INFORMATION TECHNOLOGY CO., LTD. TO THE DIRECTORS OF HENGXIN TECHNOLOGY LTD.

Introduction

We report on the historical financial information of Shanghai Zhangyu Information Technology Co., Ltd. (the "**Shanghai Zhangyu**") and its subsidiaries (together, the "**Shanghai Zhangyu Group**") set out on pages IIB-4 to IIB-41, which comprises the consolidated statements of financial position of the Shanghai Zhangyu Group and statement of financial position of Shanghai Zhangyu as at 31 December 2021, 2022 and 2023 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2021, 2022 and 2023 (the "**Relevant Periods**"), and material accounting policy information and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages IIB-4 to IIB-41 forms an integral part of this report, which has been prepared for inclusion in the circular of Hengxin Technology Ltd. (the "**Company**") dated 25 June 2024 (the "**Circular**") in connection with the proposed acquisition of the 49% equity interest of the Shanghai Zhangyu Group by the Company.

Directors' responsibility for Historical Financial Information

The directors of Shanghai Zhangyu are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of the Circular in which the Historical Financial Information of the Shanghai Zhangyu Group is included, and such information is prepared based on the accounting policies materially consistent with those of the Company.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "*Accountants' Reports on Historical Financial Information in Investment Circulars*" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Shanghai Zhangyu Group's financial position as at 31 December 2021, 2022 and 2023, of Shanghai Zhangyu's financial position as at 31 December 2021, 2022 and 2023, and of the Shanghai Zhangyu Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustment

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIB-3 have been made.

Dividends

We refer to note 17(b) to the Historical Financial Information which states that no dividends have been paid by Shanghai Zhangyu in respect of the Relevant Periods.

CL Partners CPA Limited
Certified Public Accountants
HONG, Ting
Practising Certificate Number: P07069
Hong Kong

25 June 2024

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Shanghai Zhangyu Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand ("**RMB'000**") except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Renminbi ("RMB"))

		Year ended 31 December		
		2021	**2022**	**2023**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*4*	–	15,413	43,751
Cost of sales		–	(3,985)	(12,959)
Gross profit		–	11,428	30,792
Other operating income	*5*	1,276	54	302
Selling and distribution expenses		(29)	(835)	(1,577)
Administrative expenses		(138)	(3,603)	(5,503)
Other operating expenses	*6*	(70)	(285)	(3,965)
Profit from operations		1,039	6,759	20,049
Interest expense	*7(a)*	–	(256)	(159)
Profit before taxation	*7*	1,039	6,503	19,890
Income tax	*8*	–	(114)	(2,672)
Profit and total comprehensive income for the year attributable to equity shareholders of Shanghai Zhangyu		1,039	6,389	17,218

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Renminbi ("RMB"))

		As at 31 December		
		2021	**2022**	**2023**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*9*	470	4,596	2,760
Intangible assets	*10*	–	–	15,057
Deferred tax assets	*16(b)*	–	–	330
		470	4,596	18,147
Current assets				
Trade and other receivables	*12*	59	15,156	28,495
Cash	*13*	1	2,323	16,493
		60	17,479	44,988

		As at 31 December		
		2021	2022	2023
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities				
Trade and other payables	*14*	3,133	13,877	36,887
Lease liabilities	*15*	–	2,098	2,200
Income tax payable	*16(a)*	–	114	2,729
		3,133	16,089	41,816
Net current (liabilities)/assets		(3,073)	1,390	3,172
Total assets less current liabilities		(2,603)	5,986	21,319
Non-current liabilities				
Lease liabilities	*15*	–	2,200	–
Deferred tax liabilities	*16(b)*	–	–	315
		–	2,200	315
NET ASSETS		(2,603)	3,786	21,004
CAPITAL AND RESERVES				
Share capital	*17(c)*	1,600	1,600	1,600
Reserves		(4,203)	2,186	19,404
TOTAL (DEFICITS)/EQUITY		(2,603)	3,786	21,004

STATEMENTS OF FINANCIAL POSITION OF SHANGHAI ZHANGYU

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	470	4,596	2,761
Intangible assets	–	–	15,057
Deferred tax assets	–	–	329
	470	4,596	18,147
Current assets			
Trade and other receivables	59	15,156	28,495
Cash	1	2,323	16,493
	60	17,479	44,988

		As at 31 December		
		2021	**2022**	**2023**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities				
Trade and other payables		3,133	13,877	36,887
Lease liabilities		–	2,098	2,200
Income tax payable		–	114	2,729
		3,133	16,089	41,816
Net current (liabilities)/assets		(3,073)	1,390	3,172
Total assets less current liabilities		(2,603)	5,986	21,319
Non-current liabilities				
Lease liabilities		–	2,200	–
Deferred tax liabilities		–	–	315
		–	2,200	315
NET ASSETS		(2,603)	3,786	21,004
CAPITAL AND RESERVES				
Share capital	*17(c)*	1,600	1,600	1,600
Reserves		(4,203)	2,186	19,404
TOTAL (DEFICITS) EQUITY		(2,603)	3,786	21,004

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Renminbi ("RMB"))

	Attributable to equity shareholders of Shanghai Zhangyu			
	Share capital	General reserves	(Accumulated losses)/ retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2021	1,600	–	(5,242)	(3,642)
Changes in equity for 2021:				
Profit and total comprehensive income for the year	–	–	1,039	1,039
Balance at 31 December 2021	1,600	–	(4,203)	(2,603)
Balance at 1 January 2022	1,600	–	(4,203)	(2,603)
Changes in equity for 2022:				
Profit and total comprehensive income for the year	–	–	6,389	6,389
Transfer to general reserves	–	639	(639)	–
Balance at 31 December 2022	1,600	639	1,547	3,786
Balance at 1 January 2023	1,600	639	1,547	3,786
Changes in equity for 2023:				
Profit and total comprehensive income for the year	–	–	17,218	17,218
Transfer to general reserves	–	1,721	(1,721)	–
Balance at 31 December 2023	1,600	2,360	17,044	21,004

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Renminbi ("RMB"))

		Year ended 31 December		
		2021	**2022**	**2023**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities				
Profit before taxation		1,039	6,503	19,890
Adjustments for:				
Depreciation of property, plant and equipment and right-of-use assets		37	2,199	2,239
Amortisation of intangible assets		–	–	792
Written back of other payables		(1,258)	–	
Interest expense		–	256	159
Interest income		–	(2)	(17)
		(182)	8,956	23,063
Changes in working capital:				
Trade and other receivables		123	(15,097)	(13,339)
Trade and other payables		52	3,123	2,074
Cash (used in)/generated from operations		(7)	(3,018)	11,798
Interest received		–	2	17
Income tax paid	*16(a)*	–	–	(71)
Net cash (used in)/generated from operating activities		(7)	(3,016)	11,744

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Investing activities			
Payment for acquisition of property, plant and equipment	–	(26)	(404)
Payment for acquisition of intangible assets	–	–	(15,849)
Cash used in investing activities	–	(26)	(16,253)
Financing activities			
Proceeds from advance from a fellow subsidiary	–	13,609	28,346
Repayment of advance from a fellow subsidiary	–	(4,638)	(7,410)
Repayment to former staff	–	(1,350)	–
Capital element of lease rentals paid	–	(2,001)	(2,098)
Interest element of lease rentals paid	–	(256)	(159)
Net cash generated from financing activities	–	5,364	18,679
Net (decrease)/increase in cash	(7)	2,322	14,170
Cash at 1 January	8	1	2,323
Cash at 31 December	1	2,323	16,493

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in Renminbi ("RMB") unless otherwise indicated)

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Shanghai Zhangyu Information Technology Co., Ltd. (the "**Shanghai Zhangyu**") was incorporated in the People's Republic of China ("**PRC**") on 16 September 2013 with its registered office at Building 11, Lane 1333, Jiangnan Avenue, Changxing Town, Chongming District, Shanghai (Lingang Changxing Science and Technology Park).

The principal activities of Shanghai Zhangyu are development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software; technology consultant and technology services; and import and export technology. The principal activities of the subsidiary are disclosed in Note 11.

For the purpose of preparing the Historical Financial Information for the Relevant Periods, the Shanghai Zhangyu Group has consistently applied the accounting policies which conform with IFRSs issued by the IASB, that are effective for the accounting period beginning on 1 January 2023 throughout the Relevant Periods.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

As at the date of this report, Shanghai Zhangyu has direct interest in the following subsidiary, which is private company:

Name of company	Place and date of incorporation/establishment	Particulars of register and paid-up capital	Percentage of equity attributed to Shanghai Zhangyu Direct	Percentage of equity attributed to Shanghai Zhangyu Indirect	Principal activities
Shanghai Semiconductor Technology Co., Ltd.* (上海掌御半導體有限公司)	PRC, 19 Mar 2019	RMB10,000,000/nil	100%	–	Development, consultation and technology service of semiconductor technology, computer technology, Internet of Things technology and new energy; design and sale of integrated circuits

* The English translation of the company is for reference only. The official name is in Chinese.

2 MATERIAL ACCOUNTING POLICIES

(a) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

(b) Use of estimation and judgement

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Functional and presentation currency

The Historical Financial Information are presented in Renminbi ("**RMB**"), which is Shanghai Zhangyu's functional currency. All financial information presented in RMB has been rounded to the nearest thousand, unless otherwise stated.

(d) Subsidiaries

Subsidiaries are entities controlled by the Shanghai Zhangyu Group. The Shanghai Zhangyu Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Changes in the Shanghai Zhangyu Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

When the Shanghai Zhangyu Group loses control of a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in that former subsidiary is measured at fair value when control is lost.

In Shanghai Zhangyu's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

–	Office equipment	3-5 years
–	Motor vehicles	5 years

Right-of-use assets is depreciated over the unexpired term of lease.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(f) Intangible assets

Intangible assets, including patents and intellectual property resources ("**IP resources**"), that are acquired by the Shanghai Zhangyu Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, if any, and is generally recognised in profit or loss.

The estimated useful life of IP resources for the current and comparative periods is 10 years.

Both the period and method of amortisation are reviewed annually.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Leased assets

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

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Shanghai Zhangyu Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

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

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

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

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

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract if such modification is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

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

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Shanghai Zhangyu Group recognises a loss allowance for ECLs on financial assets measured at amortised cost (including cash, trade receivables and other receivables that are held for the collection of contractual cash flows which represent solely payments of principal and interest).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

The expected cash shortfalls are discounted using the following discount rates where the effect is material:

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate.

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

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

ECLs are measured on either of the following bases:

– 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and

– lifetime ECLs: these are the ECL that result from all possible default events over the expected lives of the items to which the ECL model applies.

The Shanghai Zhangyu Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-months ECLs:

– financial instruments that are determined to have low credit risk at the reporting date; and

– other financial instruments for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

When determining whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition and when measuring ECLs, the Shanghai Zhangyu Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Shanghai Zhangyu Group's historical experience and informed credit assessment, that includes forward-looking information.

The Shanghai Zhangyu Group assumes that the credit risk on a financial asset has increased significantly if it is more than 180 days past due.

The Shanghai Zhangyu Group considers a financial asset to be in default when:

– the debtor is unlikely to pay its credit obligations to the Shanghai Zhangyu Group in full, without recourse by the Shanghai Zhangyu Group to actions such as realising security (if any is held); or

– the financial asset is 540 days past due.

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

Credit-impaired financial assets

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default;

– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

– it is probable that the debtor will enter bankruptcy or other financial reorganisation; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

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

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

(ii) Impairment of other non-current assets

At each reporting date, the Shanghai Zhangyu Group reviews the carrying amounts of its non-financial assets (other than inventories and other contract costs and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("**CGU**"s).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use based on the estimated future cash flows, 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 CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amount of other assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Shanghai Zhangyu Group recognises the related revenue.

A contract liability is also recognised if the Shanghai Zhangyu Group has an unconditional right to receive non-refundable consideration before the Shanghai Zhangyu Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

(j) Trade and other receivables

A receivable is recognised when the Shanghai Zhangyu Group has an unconditional right to receive consideration and only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost.

(k) Cash

Cash comprise cash at bank and on hand.

(l) Trade and other payables

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

(m) Employee benefits

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

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Shanghai Zhangyu Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided.

(n) Income tax

Income tax expense comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;

– temporary differences related to investment in a subsidiary to the extent that the Shanghai Zhangyu Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;

– taxable temporary differences arising on the initial recognition of goodwill; or

– those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Shanghai Zhangyu Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(o) Provisions and contingent liabilities

Generally provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under that contract and an allocation of other costs directly related to fulfilling that contract. Before a provision is established, the Shanghai Zhangyu Group recognises any impairment loss on the assets associated with that contract.

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

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

(p) Revenue and other income

Income is classified by the Shanghai Zhangyu Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Shanghai Zhangyu Group's business.

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

Revenue is recognised when (or as) control over a product or service is transferred to the customer at the amount of promised consideration to which the Shanghai Zhangyu Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

(i) Revenue from contracts with customers

(a) Rendering services

Revenue from the rendering digital security services is recognised over time, using an output method to measure progress towards complete satisfaction of the service, because the customer of the Shanghai Zhangyu Group simultaneously receives and consumes the benefit provided by the Group's performance as the Group performs. The output method recognises revenue based on the proportion of the actual income incurred relative to the estimated total consideration for satisfaction of the services.

(ii) Revenue from other sources and other income

(a) Interest income

Interest income is recognised using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(b) Government grants

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

Zhangyu Group for the cost of an asset are presented in the consolidated statements of financial position by setting up the grant as deferred income and consequently are effectively recognised in profit or loss on a systematic basis over the useful life of the asset.

(q) Related parties

(a) A person, or a close member of that person's family, is related to the Shanghai Zhangyu Group if that person:

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

(ii) has significant influence over the Shanghai Zhangyu Group; or

(iii) is a member of the key management personnel of the Shanghai Zhangyu Group or the Shanghai Zhangyu Group's parent.

(b) An entity is related to the Shanghai Zhangyu Group if any of the following conditions applies:

(i) The entity and the Shanghai Zhangyu Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

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

(r) Segment reporting

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

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Notes 18 contain information about the assumptions and their risk factors relating to financial instruments. Other significant sources of estimation uncertainty are as follows:

(a) Impairment of trade and other receivables

The Shanghai Zhangyu Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortised cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents mainly the digital security services.

Disaggregation of revenue

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

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from digital security	–	15,413	43,751

	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Revenue recognised point in time	–	1,991	8,265
Revenue recognised over time	–	13,422	35,486
	–	15,413	43,751

Revenue from major customers which accounts for 10% or more of the Shanghai Zhangyu Group's revenue are as follows:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Customer A	–#	5,416	15,040
Customer B	–#	8,006	5,188
Customer C	–#	–#	14,598

\# The Shanghai Zhangyu Group did not have revenue from the corresponding customers.

(b) Segment reporting

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Shanghai Zhangyu Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Shanghai Zhangyu Group have determined that it only has one operating segment which is digital technology and digital security.

(i) Information about geographical area

The Shanghai Zhangyu Group also operate within one geographical segment because their revenues are all generated in the PRC and their assets are all located in the PRC. Accordingly, no geographical segment data is presented.

5 OTHER OPERATING INCOME

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Interest income	–	2	17
Government grants	–	39	285
Written back of other payables	1,258	–	–
Others	18	13	–
	1,276	54	302

Note:

A creditor was deregistered during the year ended 31 December 2021. Written back of other payables was recongised for the year ended 31 December 2021 accordingly.

6 OTHER OPERATING EXPENSES

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Research and development expenses	70	285	3,958
Net foreign exchange loss	–	–	7
	70	285	3,965

These research and development expenses were not capitalised as the Shanghai Zhangyu Group cannot demonstrate that an intangible asset exists that will generate probable future economic benefits.

7 PROFIT BEFORE TAXATION

(a) Interest expense

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Interest on lease liabilities	–	256	159

(b) Staff costs

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and other benefits	122	2,541	2,802
Contributions to defined contribution plans	14	286	323
Directors' remuneration	–	162	–
	136	2,989	3,125

Pursuant to the relevant regulations of the PRC government, Shanghai Zhangyu and its subsidiaries have participated in central pension schemes ("**the Schemes**") operated by local municipal government whereby Shanghai Zhangyu and its subsidiaries are required to contribute 24% of the basic salaries of their employees to the Schemes to fund their retirement benefits. The local municipal government undertake to assume the retirement benefit obligations of all existing and future retired employees of the Shanghai Zhangyu Group. The only obligation of Shanghai Zhangyu and its subsidiaries with respect to the Scheme is to pay the ongoing required contributions under the Schemes mentioned above. Contributions under the Schemes are charged to profit or loss as incurred.

(c) Other items

	Notes	2021 RMB'000	2022 RMB'000	2023 RMB'000
		Year ended 31 December		
Amortisation of intangible assets	*10*	–	–	792
Depreciation charge	*9*			
– owned property, plant and equipment		37	99	139
– right-of-use assets		–	2,100	2,100
		37	2,199	2,239
Auditor's remuneration		–	–	25

8 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Note	2021 RMB'000	2022 RMB'000	2023 RMB'000
		Year ended 31 December		
Current tax expense				
Current year		–	114	2,666
Under-provision in prior years		–	–	21
		–	114	2,687
Deferred tax expense				
Origination of temporary differences	*16(b)*	–	–	(15)
Income tax expense		–	114	2,672

Note:

The statutory corporate income tax rate of the subsidiary of the Shanghai Zhangyu Group operated in the PRC is 25%.

Shanghai Zhangyu is subject to a preferential income tax rate of 15% in 2021, 2022 and 2023 available to enterprises which qualify as a High and New Technology Enterprise.

Pursuant to CaiShui [2021] No.12 issued by the Ministry of Finance and the State Administration of Taxation, the company qualified for small and micro enterprises in 2022, the income tax of the first RMB1.0 million of annual taxable profits, and the remaining part exceeding RMB1.0 million but not more than RMB3.0 million shall be calculated at 12.5% and 50% of taxable income respectively, with a reduced tax rate of 20%.

(b) Reconciliation between actual income tax expense and accounting profit at applicable tax rates:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	1,039	6,503	19,890
Tax using the PRC statutory tax rate of 25%	260	1,626	4,973
Effect of concessionary tax rates	(206)	(628)	(1,990)
Tax effect of non-deductible expenses	–	23	445
Tax effect of additional deduction for qualified research and development costs	–	–	(777)
Under-provision in prior years	–	–	21
Tax effect of usage of the unused tax losses not recognised in the prior years	(54)	(907)	–
Tax expense charged to profit or loss	–	114	2,672

9 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Right-of-use assets	**Office equipment**	**Motor vehicles**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
Balance at 1 January 2021	–	25	–	25
Additions	–	–	500	500
Balance at 31 December 2021 and 1 January 2022	–	25	500	525
Additions	6,299	26	–	6,325
Balance at 31 December 2022 and 1 January 2023	6,299	51	500	6,850
Additions	–	403	–	403
Balance at 31 December 2023	6,299	454	500	7,253

	Right-of-use assets	Office equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accumulated depreciation:				
Balance at 1 January 2021	–	(18)	–	(18)
Charge for the year	–	(5)	(32)	(37)
Balance at 31 December 2021 and at 1 January 2022	–	(23)	(32)	(55)
Charge for the year	(2,100)	(4)	(95)	(2,199)
Balance at 31 December 2022 and at 1 January 2023	(2,100)	(27)	(127)	(2,254)
Charge for the year	(2,100)	(44)	(95)	(2,239)
Balance at 31 December 2023	(4,200)	(71)	(222)	(4,493)
Net book value:				
At 31 December 2021	–	2	468	470
At 31 December 2022	4,199	24	373	4,596
At 31 December 2023	2,099	383	278	2,760

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

		As at 31 December		
		2021	**2022**	**2023**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Other properties leased own use, carried at depreciated cost	*(i)*	–	4,199	2,099

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

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation charge of right-of-use assets by class of underlying asset:			
Other properties leased for own use, carried at depreciated cost	–	2,100	2,100

During the Relevant Periods, additions to right-of-use assets were RMB6,299,000 for year ended 31 December 2022. This amount is related to the capitalised lease payments payable under new tenancy agreements.

Note:

(i) Other properties leased for own use

During the years ended 31 December 2022 and 2023, the Shanghai Zhangyu Group has obtained the right to use other properties as its office through tenancy agreements. The leases typically run for an initial period of 3 years.

10 INTANGIBLE ASSETS

	IP resources *RMB'000*
Cost:	
At 1 January 2021, 31 December 2021, 1 January 2022, 31 December 2022 and 1 January 2023	–
Additions	15,849
At 31 December 2023	15,849
Accumulated amortisation:	
At 1 January 2021, 31 December 2021, 1 January 2022, 31 December 2022 and 1 January 2023	–
Charge for the year	(792)
Balance at 31 December 2023	(792)
Carrying amount:	
At 31 December 2021	–
At 31 December 2022	–
At 31 December 2023	15,057

The amortisation charge for the Relevant Periods is included in "administrative expenses" in the consolidated statements of profit or loss. No impairment loss was recognised during the Relevant Periods.

11 INVESTMENT IN A SUBSIDIARY

The following contains the particulars of the subsidiary of Shanghai Zhangyu.

Name of company	Principal activities	Place and date of incorporation and business	Particulars of registered/paid-up capital	Shanghai Zhangyu's effective interest
Shanghai Semiconductor Technology Co., Ltd.* (上海掌御半導體有限公司)	Development, consultation and technology service of semiconductor technology, computer technology, Internet of Things technology and new energy; design and sale of integrated circuits	The PRC	RMB10,000,000//nil	100%

The above subsidiary in the PRC are established as limited liability companies.

* The English translation of the above is for reference only. Their official name is in Chinese.

12 TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Trade receivables			
– Amounts due from third parties	40	13,108	26,469
Other receivable			
– Prepayments	–	2,011	1,562
– Amounts due from third parties	19	37	464
	19	2,048	2,026
	59	15,156	28,495

Ageing analysis

The Shanghai Zhangyu Group generally allows a credit period ranging from 30 to 180 days to its trade customers.

As of the end of the reporting period, the ageing analysis of trade debtors (which are included in trade and other receivables), based on the invoice date is as follows:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 6 months	23	13,108	26,469
1 to 2 years	17	–	–
	40	13,108	26,469

Further details on the Shanghai Zhangyu Group's credit policy and credit risk arising for trade receivable are set out in Note 18(a).

13 CASH AND OTHER CASH FLOW INFORMATION

(a) Cash comprise:

	As at 31 December		
	2021	2022	2023
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank	1	2,323	16,493
Cash in the consolidated statements of financial position and consolidated statements of cash flow	1	2,323	16,493

(b) Reconciliation of liabilities arising from financing activities:

	Other payable- Amount due to a fellow subsidiary	Other payable- Amount due to a director	Other payable- Amount due to former staff	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 14)			*(Note 15)*	
At 1 January 2021, 31 December 2021 and 1 January 2022	–	117	2,450	–	2,567
Changes from financing cash flows:					
Advance from a fellow subsidiary	13,609	–	–	–	13,609
Repayment to a fellow subsidiary	(4,638)	–	–	–	(4,638)
Capital element of lease rentals paid	–	–	–	(2,001)	(2,001)
Interest element of lease rentals paid	–	–	–	(256)	(256)
Repayment to a former staff	–	–	(1,350)	–	(1,350)
Total changes from financing cash flows	8,971	–	(1,350)	(2,257)	5,364
Other changes:					
Increase in lease liabilities from entering new leases during the year	–	–	–	6,299	6,299
Interest expense	–	–	–	256	256
Transfer of liabilities	–	578	(500)	–	78
Repayment to a former staff by a fellow subsidiary	600	–	(600)	–	–
At 31 December 2022	9,571	695	–	4,298	14,564

	Other payable-Amount due to a fellow subsidiary	Other payable-Amount due to a director	Other payable-Amount due to former staff	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 14)			*(Note 15)*	
At 1 January 2023	9,571	695	–	4,298	14,564
Changes from financing cash flows:					
Advance from a fellow subsidiary	28,346	–	–	–	28,346
Repayment to a fellow subsidiary	(7,410)	–	–	–	(7,410)
Capital element of lease rentals paid	–	–	–	(2,098)	(2,098)
Interest element of lease rentals paid	–	–	–	(159)	(159)
Total changes from financing cash flows	20,936	–	–	(2,257)	18,679
Other change:					
Interest expense	–	–	–	159	159
At 31 December 2023	30,507	695	–	2,200	33,402

14 TRADE AND OTHER PAYABLES

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
– Amount due to a fellow subsidiary *(Note 19)*	–	2,890	–
– Amounts due to third parties	68	68	4,274
	68	2,958	4,274
Other payables			
– Amount due to a fellow subsidiary *(Note 19)*	–	9,571	30,507
– Amount due to a director *(Note 19)*	117	695	695
– Amount due to former staff	2,450	–	–
– Amounts due to third parties	–	–	47
– Contract liabilities	378	–	977
– Salaries and benefits payables	118	374	274
– Value added tax and other taxes payable	2	279	113
	3,065	10,919	32,613
	3,133	13,877	36,887

Movements in contract liabilities during the Relevant Periods are as follows:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Balance at 1 January	414	378	–
Decrease in contract liabilities	(414)	(378)	–
Increase in contract liabilities	378	–	977
Balance at 31 December	378	–	977

The credit period granted by trade creditors generally range from 60 to 180 days. As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	–	2,890	4,253
Over 1 year	68	68	21
	68	2,958	4,274

15 LEASE LIABILITIES

At 31 December 2021, 2022 and 2023, the lease liabilities were repayable as follows:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	–	2,098	2,200
After 1 year but within 2 years	–	2,200	–
	–	4,298	2,200

16 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
At the beginning of the year	–	–	114
Provision for PRC Corporate Income Tax for the year	–	114	2,687
Income tax paid	–	–	(72)
At the end of the year	–	114	2,729

(b) Deferred tax assets recognised:

(i) Movement of each component of deferred tax assets

The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

		Lease liabilities	**Right-of-use assets**	**Total**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021, 31 December 2021, 1 January 2022, 31 December 2022 and 1 January 2023		–	–	–
Recognised in profit or loss	*8(a)*	329	(315)	14
At 31 December 2023		329	(315)	14

(ii) Reconciliation to the consolidated statements of financial position

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Net deferred tax assets recognised in the consolidated statements of financial position	–	–	329
Net deferred tax liabilities recognised in the consolidated statements of financial position	–	–	(315)
			14

(c) Deferred tax assets not recognised

As at 31 December 2021, the Shanghai Zhangyu Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB3,629,000, mainly incurred by Shanghai Zhangyu in the PRC, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses incurred by Shanghai Zhangyu in the PRC will expire within 5 years from the year when such losses were incurred under current tax legislation.

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Shanghai Zhangyu Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in Shanghai Zhangyu's individual components of equity between the beginning and the end of the Relevant Periods are set out below:

Shanghai Zhangyu		Reserves		
	Paid-in capital	General reserves	(Accumulated loss)/Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	1,600	–	(5,242)	(3,642)
Changes in equity for 2021:				
Profit and total comprehensive income for the year	–	–	1,039	1,039
Balance at 31 December 2021 and 1 January 2022	1,600	–	(4,203)	(2,603)
Changes in equity for 2022:				
Profit and total comprehensive income for the year	–	–	6,389	6,389
Transfer to general reserves	–	639	(639)	–
Balance at 31 December 2022 and 1 January 2023	1,600	639	1,547	3,786
Changes in equity for 2023:				
Profit and total comprehensive income for the year	–	–	17,218	17,218
Transfer to general reserves	–	1,721	(1,721)	–
Balance at 31 December 2023	1,600	2,360	17,044	21,004

(b) Dividends

No dividends were declared or paid by Shanghai Zhangyu during the Relevant Periods.

(c) Share capital

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Registered and paid-in capital	1,600	1,600	1,600

(d) Nature and purpose of reserves

(i) General reserves

General reserves represent the statutory and discretionary reserve arising from the Shanghai Zhangyu Group.

In accordance with the Foreign Enterprise Law applicable to the subsidiaries in the PRC, the subsidiaries are required to make appropriation to a statutory reserve.

In the PRC, at least 10% of the statutory profits after tax as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the statutory reserve until the cumulative total of the statutory reserves reach 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The statutory reserves in the PRC are not available for dividend distribution to shareholders.

(e) Capital management

The Shanghai Zhangyu Group manages its capital to ensure that entities in the Shanghai Zhangyu Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance, and to ensure that all externally imposed capital requirements are complied with. The Shanghai Zhangyu Group's overall strategy remains unchanged from prior year.

The capital structure of the Shanghai Zhangyu Group consists of debt and equity, which includes equity attributable to equity shareholders of Shanghai Zhangyu, comprising share capital and reserves.

The Shanghai Zhangyu Group's management reviews the capital structure on an on-going basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital and reserves. Based on recommendations of management, the Shanghai Zhangyu Group will balance its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt.

Management monitors capital based on the Shanghai Zhangyu Group's debt-to-assets ratio. This ratio is calculated as total liabilities divided by total assets.

As at the end of the reporting period, the Shanghai Zhangyu Group is in compliance with all capital requirements on its external borrowings.

The debt-to-assets ratio at the end of the reporting period is as follows:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Total liabilities	3,133	18,289	42,131
Total assets	530	22,075	63,135
Debt-to-assets ratio	591%	83%	67%

18 FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Exposure to credit, liquidity and interest rate arises in the normal course of the Shanghai Zhangyu Group's business.

The Shanghai Zhangyu Group's exposure to these risks and the financial risk management policies and practices used by the Shanghai Zhangyu Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Shanghai Zhangyu Group. The Shanghai Zhangyu Group's credit risk is primarily attributable to trade receivables. The Shanghai Zhangyu Group's exposure to credit risk arising from cash is limited because the counterparties are mainly reputable financial institutions with high credit standing, for which the Shanghai Zhangyu Group considers to have low credit risk.

The Shanghai Zhangyu Group does not provide any guarantees which would expose the Shanghai Zhangyu Group to credit risk.

Trade receivables

The Shanghai Zhangyu Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Shanghai Zhangyu Group has significant exposure to individual customers. As at 31 December 2021, 2022 and 2023, 100%, 65% and 49% of the total trade receivables was due from the Shanghai Zhangyu Group's largest customer respectively. As at 31 December 2021, 2022 and 2023, 100%, 100% and 98% of the total trade receivables was due from the Shanghai Zhangyu Group's five largest customers respectively.

These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 180 days from the date of billing. Normally, the Shanghai Zhangyu Group does not obtain collateral from customers.

The Shanghai Zhangyu Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. ECLs are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Shanghai Zhangyu Group's view of economic conditions over the expected lives of the receivables.

As the Shanghai Zhangyu Group's receivables are mainly due from the digital security companies of which credit level is high and have no historical loss, the expected loss rates used in calculation of the ECLs is nil in 2021, 2022 and 2023.

(b) Liquidity risk

Individual operating entities within the Shanghai Zhangyu Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Shanghai Zhangyu Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Shanghai Zhangyu Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Shanghai Zhangyu Group can be required to pay:

	Contractual cash flows			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2021				
Trade and other payables	2,753	–	2,753	2,753
At 31 December 2021	2,753	–	2,753	2,753

	Contractual cash flows			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2022				
Trade and other payables	13,598	–	13,598	13,598
Lease liabilities	2,257	2,257	4,514	4,298
At 31 December 2022	15,855	2,257	18,112	17,896

	Contractual cash flows			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2023				
Trade and other payables	35,797	–	35,797	35,797
Lease liabilities	2,257	–	2,257	2,200
At 31 December 2023	38,054	–	38,054	37,997

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Shanghai Zhangyu Group's exposure to interest rate risks arises primarily from the Shanghai Zhangyu Group's cash at bank.

(i) Exposure to interest rate risk

At the reporting date, the interest rate profile of the Shanghai Zhangyu Group's interest-bearing financial instruments, as reported to management was as follows:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Variable-rate instrument			
Cash at bank	1	2,323	16,493

(ii) Sensitivity analysis

Cash flow sensitivity analysis for variable-rate instrument

The Shanghai Zhangyu Group does not have significant financial assets or liabilities that are exposed to interest rate risk as at the end of reporting periods.

(d) Fair value measurement

(i) Financial instruments measured at fair value

Fair value hierarchy

The following table presents the fair value of the Shanghai Zhangyu Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

As at 31 December 2021, 2022 and 2023, no financial instruments measured at fair value.

As at 31 December 2021, 2022 and 2023, the only financial assets of the Shanghai Zhangyu Group were trade and other receivables (see Note 12). These instruments are measured at carrying amount since the carrying amount is a reasonable approximation of fair value.

As at 31 December 2021, 2022 and 2023, the only financial liabilities of the Shanghai Zhangyu Group were trade and other payables (see Note 14). These instruments are measured at carrying amount since the carrying amount is a reasonable approximation of fair value.

During the years ended 31 December 2021, 2022 and 2023, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Shanghai Zhangyu Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) ***Financial assets and liabilities carried at other than fair value***

All financial instruments measured at other than fair value are carried at amortised cost which are approximate their fair values as at 31 December 2021, 2022 and 2023.

19 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Shanghai Zhangyu Group, including amounts paid to Shanghai Zhangyu's directors and certain of the highest paid employees is as follows:

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	212	176	189
Key management personnel compensation comprised amounts paid to:			
– directors of Shanghai Zhangyu	–	162	–
– other key management personnel	212	176	189
	212	338	189

Total remuneration is included in "staff costs" (see Note 7(b)).

(b) Significant related party transactions

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Rent server from:			
The immediate holding company	–	–	7,569
Purchase service from:			
A fellow subsidiary	–	2,890	–

(c) Significant balances with related parties

	Year ended 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
Amount due to a fellow subsidiary *(Note 19)*	–	2,890	–
Other payables			
Amount due to a director *(Note 14)*	117	695	695
Amount due to a fellow subsidiary *(Note 14)*	–	9,571	30,507

Note: The amount due to a fellow subsidiary and amount due to a director are unsecured, interest-free and payable within one year.

20 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2021, 2022 and 2023, the directors of Shanghai Zhangyu consider the immediate parent and ultimate controlling party of Shanghai Zhangyu to be Xinkexin (Suzhou) Technology Co., Ltd and Mr. Cui Wei respectively.

21 MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2022, there were non-cash additions to right-of-use assets and lease liabilities of RMB6,299,000, in respect of new lease arrangements for office premises.

22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Shanghai Zhangyu Group has not early applied the following amendments to IFRSs that have been issued but are not yet effective.

	Effective for accounting periods beginning on or after
Amendments to IFRS10, *Consolidated financial statements*	To be determined
Amendments to IAS 28, *Investments in Associates and joint Ventures*	To be determined
Amendments to IAS 7 and IFRS 7, *Supplier Finance Arrangements*	1 January 2024
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2024
Amendments to IAS 1, *Non-current Liabilities with Covenants*	1 January 2024
Amendments to IFRS 16, *Lease Liability in a Sale and Leaseback*	1 January 2024
Amendments to IAS 21, *Lack of Exchangeability*	1 January 2025

The directors of the Shanghai Zhangyu Group anticipate that the application of the above amendments to IFRSs will have no material impact on the financial performance and positions of the Shanghai Zhangyu Group in the foreseeable future.

23 SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Shanghai Zhangyu Group in respect of any period subsequent to 31 December 2023.

The following discussion and analysis should be read in conjunction with the financial information of Nanjing Zhangyu Group for the three years ended 31 December 2023, as set out in Appendix IIA to this circular.

1. OVERVIEW

Nanjing Zhangyu is a company established under the PRC laws with limited liability and principally engaged in the development, design and sale of integrated circuits, digital products, computer hardware, computer technology application and software, as well as technology consultation and technology services. As at the Latest Practicable Date, Wuxi Sihai, Qinghai Zhongkong, Qinghai Solar, Zhongguang Qinghai, Zhejiang Zhongguang, Longkong Zhongguang were the major operating subsidiaries of Nanjing Zhangyu, of which (i) Wuxi Sihai is principally engaged in chip design and mass production services and system integration services; (ii) Qinghai Zhongkong, Qinghai Solar and Zhongguang Qinghai are principally engaged in the supply of electricity with a focus on the production and sales of solar power as well as the provision of development consultation and technical services of the solar thermal power generation technology; (iii) Zhejiang Zhongguang is principally engaged in provision of related technical and consultancy services; and (iv) Longkong Zhongguang is principally engaged in investment holding.

2. OPERATING RESULTS

Revenue

Nanjing Zhangyu Group recorded a revenue of approximately RMB45.4 million, RMB132.5 million, and RMB236.0 million, respectively, for each of the years ended 31 December 2021, 2022 and 2023.

Nanjing Zhangyu Group's revenue increased by approximately 191.8% from approximately RMB45.4 million for the year ended 31 December 2021 to approximately RMB132.5 million for the year ended 31 December 2022. Such increase was mainly attributable to the strong demand from the integrated circuits downstream application market and the increase of new customers resulting from the proactive market development strategy adopted by Nanjing Zhangyu Group.

Nanjing Zhangyu Group's revenue increased by approximately 78.1% from approximately RMB132.5 million for the year ended 31 December 2022 to approximately RMB236.0 million for the year ended 31 December 2023. Such increase was mainly attributable to revenue contribution from the new energy and service business segment, which is formed after the completion of acquisition of 51% equity interest in Zhejiang Zhaoguang by Nanjing Zhangyu in July 2023 (the "**Zhejiang Zhongguang Acquisition**").

Administrative expenses

Nanjing Zhangyu Group recorded administrative expenses of approximately RMB1.1 million, RMB1.6 million, and RMB18.7 million, respectively, for each of the years ended 31 December 2021, 2022 and 2023.

Nanjing Zhangyu Group's administrative expenses increased by approximately 48.1% from approximately RMB1.1 million for the year ended 31 December 2021 to approximately RMB1.6 million for the year ended 31 December 2022. Such increase was mainly attributable to increase in staff related costs.

Nanjing Zhangyu Group's administrative expenses increased by approximately 1,060.3% from approximately RMB1.6 million for the year ended 31 December 2022 to approximately RMB18.7 million for the year ended 31 December 2023. Such increase was mainly attributable to the first time consolidation of the relevant expenses relating to the Zhejiang Zhongguang Acquisition.

Other operating expenses

Nanjing Zhangyu Group recorded other operating expenses of approximately RMB13.3 million, RMB20.4 million, and RMB14.6 million, respectively, for each of the years ended 31 December 2021, 2022 and 2023.

Nanjing Zhangyu Group's other operating expenses increased by approximately 53.4% from approximately RMB13.3 million for the year ended 31 December 2021 to approximately RMB20.4 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase in research and development expenses of approximately RMB7.1 million.

Nanjing Zhangyu Group's other operating expenses decreased by approximately 28.4% from approximately RMB20.4 million for the year ended 31 December 2022 to approximately RMB14.6 million for the year ended 31 December 2023. Such decrease was mainly attributable to the decrease in research and development expenses of approximately RMB5.9 million.

Profit/loss for the year

Nanjing Zhangyu Group recorded loss for the year of approximately RMB0.6 million for the year ended 31 December 2021, and profit for the year of approximately RMB36.3 million and RMB61.4 million, respectively, for each of the years ended 31 December 2022 and 2023.

Nanjing Zhangyu Group recorded a turnaround of approximately 36.8 million from loss of the year of approximately RMB0.6 million for the year ended 31 December 2021 to profit of the year of approximately RMB36.3 million for the year ended 31 December 2022. Such turnaround was mainly attributable to increase of revenue and gross profit margin as well as the decrease in expenses-to-revenue ratio.

Nanjing Zhangyu Group recorded an increase in the profit for the year by approximately 69.4% from approximately RMB36.3 million for the year ended 31 December 2022 to approximately RMB61.4 million for the year ended 31 December 2023. Such increase was mainly attributable to increase of revenue generated from the integrated circuit design and supply chain services and the first time consolidation of revenue generated from Zhejiang Zhongguang Group following the Zhejiang Zhongguang Acquisition.

3. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash and Cash Equivalents

The balance of cash and cash equivalents of Nanjing Zhangyu Group as at 31 December 2021, 2022 and 2023 was approximately RMB4.1 million, RMB29.3 million, and RMB395.3 million, respectively. The cash and bank equivalents of Nanjing Zhangyu Group were denominated in RMB.

Bank and Other Borrowings

As at 31 December 2021, 2022 and 2023, Nanjing Zhangyu Group had bank borrowings of nil, nil, and RMB889.1 million, respectively, all of which were dominated in RMB. The following table sets out a breakdown of Nanjing Zhangyu Group's bank borrowings as at the dates indicated:

	As at 31 December		
	2021	**2022**	**2023**
	RMB'000	*RMB'000*	*RMB'000*
Current			
– Secured bank loan	–	–	41,427
– Unsecured bank loans	–	–	11,556
Non-current			
– Secured bank loan	–	–	874,612
– Unsecured bank loans	–	–	14,556
Total			889,168

The secured bank loans were secured by the income receipts right in relation to the sales of electricity and property, plant and equipment of Nanjing Zhangyu Group at an interest rate of 4.25 – 4.70% per annum. The unsecured bank loans carried interest at annual rates within 3.45 – 4.00% per annum and were all repayable within one year.

Hedging

Nanjing Zhangyu Group did not (i) enter into any financial instruments for hedging purposes; and (ii) have any currency borrowings or other hedging instruments for foreign currency net investments for each of the years ended 31 December 2021, 2022 and 2023.

4. GEARING RATIO

The gearing ratio of Nanjing Zhangyu Group, which was calculated on the basis of its total liabilities over total assets, was approximately 48.9%, 42.2% and 59.9% as at 31 December 2021, 2022 and 2023, respectively.

5. CHARGE ON ASSETS

As at 31 December 2021, 2022 and 2023, the income receipts right in relation to the sales of electricity and property, plant and equipment, respectively, were pledged to secure certain bank loans granted to Nanjing Zhangyu Group with an amount of nil, nil and RMB482,412,000.

6. FOREIGN EXCHANGE EXPOSURE

Nanjing Zhangyu Group conducts its business in the PRC and its business transactions are all denominated in RMB. Nanjing Zhangyu Group also uses RMB as its reporting currency. There was no financial arrangement for hedging purpose in respect of Nanjing Zhangyu Group for the years ended 31 December 2021, 2022, and 2023. Therefore, the Directors believe that the Nanjing Zhangyu Group's operations have no foreign exchange risk exposure.

7. SIGNIFICANT INVESTMENTS

As at 31 December 2021, 2022 and 2023, Nanjing Zhangyu Group did not hold any significant investments.

8. MATERIAL ACQUISITIONS AND DISPOSALS

Apart from (i) the acquisition of 80% equity interest in Wuxi Sihai that was completed on 23 December 2021; and (ii) the acquisition of 51% equity interest in Zhejiang Zhonggunag that was completed on 21 July 2023, Nanjing Zhangyu Group did not make any material acquisitions and disposals of subsidiaries, associates and joint ventures during the three years ended 31 December 2023.

9. FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2021, 2022 and 2023, Nanjing Zhangyu Group did not have any future plans for material investments or capital assets.

10. CONTINGENT LIABILITIES

As at 31 December 2021, 2022 and 2023, Nanjing Zhangyu Group did not have any material contingent liabilities.

11. EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, 2022 and 2023, Nanjing Zhangyu Group had a total number of approximately 139, 146 and 180 employees, respectively, based in the PRC. During the years ended December 2021, 2022 and 2023, Nanjing Zhangyu Group's staff costs mainly comprised wages and salaries and pension scheme contributions, and amounted to approximately RMB0.3 million, RMB0.9 million, and RMB20.4 million, respectively.

Compensation for employees of Nanjing Zhangyu Group is made with reference to the market as well as individual performance and contributions. Nanjing Zhangyu Group reviews the remuneration policies and packages on a regular basis and makes necessary adjustments that accommodate the pay levels in the industry.

The following discussion and analysis should be read in conjunction with the financial information of Shanghai Zhangyu Group for the three years ended 31 December 2023, as set out in Appendix IIB to this circular.

1. OVERVIEW

Shanghai Zhangyu is a company established under the PRC laws with limited liability and principally engaged in the provision of cyber security and software solution in the financial sector. As at the Latest Practicable Date, there was no major operating subsidiary under Shanghai Zhangyu.

2. OPERATING RESULTS

Revenue

Shanghai Zhangyu Group recorded a revenue of nil, approximately RMB15.4 million, and RMB43.8 million, respectively, for each of the years ended 31 December 2021, 2022 and 2023.

Shanghai Zhangyu Group's revenue increased by approximately 183.9% from approximately RMB15.4 million for the year ended 31 December 2022 to approximately RMB43.8 million for the year ended 31 December 2023. Such increase was mainly attributable to the increase of revenue generated from the provision of cloud computing and digital technology security services.

Administrative expenses

Shanghai Zhangyu Group recorded administrative expenses of approximately RMB0.1 million, RMB3.6 million, and RMB5.5 million, respectively, for each of the years ended 31 December 2021, 2022 and 2023.

Shanghai Zhangyu Group's administrative expenses increased by approximately 2,510.9% from approximately RMB0.1 million for the year ended 31 December 2021 to approximately RMB3.6 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase in staff related costs and the increase in rental properties.

Shanghai Zhangyu Group's administrative expenses increased by approximately 52.7% from approximately RMB3.6 million for the year ended 31 December 2022 to approximately RMB5.5 million for the year ended 31 December 2023. Such increase was mainly attributable to the increase in staff related costs and office expense.

Profit/loss for the year

Shanghai Zhangyu Group recorded profit for the year of approximately RMB1.0 million, RMB6.4 million, and RMB17.2 million, respectively, for each of the years ended 31 December 2021, 2022 and 2023.

Shanghai Zhangyu Group's profit for the year increased by approximately 514.9% from approximately RMB1.0 million for the year ended 31 December 2021 to profit of the year of approximately RMB6.4 million for the year ended 31 December 2022. Such increase was mainly attributable to the increase of revenue and gross profit margin.

Shanghai Zhangyu Group's profit for the year increased by approximately 169.5% from approximately RMB6.4 million for the year ended 31 December 2022 to approximately RMB17.2 million for the year ended 31 December 2023. Such increase was mainly attributable to the increase of revenue and decrease in expense ratio.

3. LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash and Cash Equivalents

The balance of cash and cash equivalents of Shanghai Zhangyu Group as at 31 December 2021, 2022 and 2023 was approximately RMB1 thousand, RMB2.3 million, and RMB16.5 million, respectively. The cash and bank equivalents of Shanghai Zhangyu Group were denominated in RMB.

Bank and Other Borrowings

As at 31 December 2021, 2022 and 2023, Shanghai Zhangyu Group did not have any bank borrowings.

Hedging

Shanghai Zhangyu Group did not (i) enter into any financial instruments for hedging purposes; and (ii) have any currency borrowings or other hedging instruments for foreign currency net investments for each of the years ended 31 December 2021, 2022 and 2023.

4. GEARING RATIO

The gearing ratio of Shanghai Zhangyu Group, which was calculated on the basis of its total liabilities over total assets, was approximately 591.1%, 82.8% and 66.7% as at 31 December 2021, 2022 and 2023, respectively.

5. CHARGE ON ASSETS

As at 31 December 2021, 2022 and 2023, Shanghai Zhangyu Group had no pledge of assets.

6. FOREIGN EXCHANGE EXPOSURE

Shanghai Zhangyu Group conducts its business in the PRC and its business transactions are all denominated in RMB. Shanghai Zhangyu Group also uses RMB as its reporting currency. There was no financial arrangement for hedging purpose in respect of Shanghai Zhangyu Group for the years ended 31 December 2021, 2022, and 2023. Therefore, the Directors believe that Shanghai Zhangyu Group's operations have no foreign exchange risk exposure.

7. SIGNIFICANT INVESTMENTS

As at 31 December 2021, 2022 and 2023, Shanghai Zhangyu Group did not hold any significant investments.

8. MATERIAL ACQUISITIONS AND DISPOSALS

For the years ended 31 December 2021, 2022 and 2023, there were no material acquisitions and disposals of subsidiaries, associates and joint ventures by Shanghai Zhangyu Group.

9. FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 December 2021, 2022 and 2023, Shanghai Zhangyu Group did not have any future plans for material investments or capital assets.

10. CONTINGENT LIABILITIES

As at 31 December 2021, 2022 and 2023, Shanghai Zhangyu Group did not have any material contingent liabilities.

11. EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, 2022 and 2023, Shanghai Zhangyu Group had a total number of approximately 5, 16 and 18 employees, respectively, based in the PRC. During the years ended December 2021, 2022 and 2023, Shanghai Zhangyu Group's staff costs mainly comprised wages and salaries and pension scheme contributions, and amounted to approximately RMB0.1 million, RMB2.5 million, and RMB2.8 million, respectively.

Compensation for employees of Shanghai Zhangyu Group is made with reference to the market as well as individual performance and contributions. Shanghai Zhangyu Group reviews the remuneration policies and packages on a regular basis and makes necessary adjustments that accommodate the pay levels in the industry.

The information set forth in this appendix does not form part of the accountants' report received from CL Partners CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix IIA and Appendix IIB to this circular, and is included herein for illustrative purposes only.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group set forth in Appendix I and the accountants' report set forth in Appendix IIA and Appendix IIB to this circular.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Introduction

The following is an illustrative unaudited pro forma consolidated statement of financial position, unaudited pro forma consolidated statement of profit or loss, unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows (the "**Unaudited Pro Forma Financial Information**") of the Enlarged Group (including the Target Group) as if the proposed acquisition of the Target Group (the "**Acquisition**") had been completed on (i) 31 December 2023 in respect of the unaudited pro forma statement of financial position of the Enlarged Group; and (ii) 1 January 2023 in respect of the unaudited pro forma statement of profit or loss and the unaudited pro forma statement of profit or loss and other comprehensive income and the unaudited pro forma statement of cash flows of the Enlarged Group. Details of the Acquisition are set out in the section headed "Letter from the Board" contained in this circular.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared, in accordance with the accounting policies of the Group under International Financial Reporting Standards, based on the audited consolidated statement of financial position of the Group as at 31 December 2023 extracted from the published annual report of the Group for the year ended 31 December 2023 which have been published on the website of the Stock Exchange and the website of the Company as if the Acquisition had been completed on 31 December 2023.

The unaudited pro forma consolidated statement of profit or loss and the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group is prepared, in accordance with the accounting policies of the Group under International Financial Reporting Standards, based on the audited consolidated statement of profit or loss, the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2023 extracted from the published annual report of the Group for the year ended 31 December 2023 which have been published on the website of the Stock Exchange and the website of the Company as if the Acquisition had been completed on 1 January 2023.

The Unaudited Pro Forma Information is based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the completion of the Acquisition that are (i) directly attributable to the transactions concerned and not relating to future events or decisions; and (ii) factually supportable, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information has been prepared by the Directors of the Company for illustrative purposes only and is based on certain assumptions, estimates, uncertainties and other currently available information. Accordingly, and because of its hypothetical nature, the Unaudited Pro Forma Information may not give a true picture of (i) the consolidated statement of financial position of the Group as at 31 December 2023 had the Acquisition been completed as of 31 December 2023; and (ii) the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the Group for the year ended 31 December 2023 had the Acquisition been completed as at 1 January 2023; or at any future dates.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 31 December 2023	Unaudited Pro forma adjustments		Enlarged Group as at 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	
Non-current assets				
Property, plant and equipment	1,154,766			1,154,766
Intangible assets	241,470			241,470
Goodwill	201,589			201,589
Interests in associates	4,178			4,178
Equity securities designated at fair value through other comprehensive income ("FVOCI")	3,536			3,536
Financial assets measured at fair value through profit or loss ("FVPL")	24,768			24,768
Time deposits	45,000			45,000
Pledged deposit	35,000			35,000
Deferred tax assets	19,800			19,800
	1,730,107			1,730,107
Current assets				
Inventories and other contract costs	194,854			194,854
Digital assets	10,016			10,016
Trade and other receivables	926,982			926,982
Time deposits	264,125			264,125
Cash	944,863	(2,272)	(208,800)	733,791
Pledged deposits	91,833			91,833
Financial asset measured at fair value through profit or loss ("FVPL")	2,950			2,950
Derivative financial assets	82,041			82,041
	2,517,664			2,306,592

	The Group as at 31 December 2023	Unaudited Pro forma adjustments		Enlarged Group as at 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	
Current liabilities				
Trade and other payables	453,042			453,042
Bank loans	176,543		64,893	241,436
Derivative financial liability	2,654			2,654
Lease liabilities	6,137			6,137
Income tax payable	10,455			10,455
	648,831			713,724
Net current assets	1,868,833			1,592,868
Total assets less current liabilities	3,598,940			3,322,975
Non-current liabilities				
Bank loans	836,366		248,307	1,084,673
Deferred income	882			882
Lease liabilities	3,917			3,917
Deferred tax liabilities	19,202			19,202
	860,367			1,108,674
NET ASSETS	2,738,573			2,214,301
CAPITAL AND RESERVES				
Share capital	295,000			295,000
General reserves	315,149			315,149
Special reserve	(6,017)			(6,017)
Fair value reserve	(5,494)			(5,494)
Translation reserves	(1,555)			(1,555)
Retained profits	1,328,626	(2,272)	(452,477)	873,877
Total equity attributable to equity shareholders of the Company	1,925,709			1,470,960
Non-controlling interest	812,864		(69,523)	743,341
TOTAL EQUITY	2,738,573			2,214,301

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2023	Unaudited Pro forma adjustments			The Enlarged Group for the year ended 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 5*	*Note 6*	
Revenue	2,255,903				2,255,903
Cost of sales	(1,821,205)				(1,821,205)
Gross profit	434,698				434,698
Other operating income	54,117				54,117
Selling and distribution expenses	(107,756)				(107,756)
Administrative expenses	(72,458)	(2,272)			(74,730)
Impairment loss on trade receivables	(26,615)				(26,615)
Other operating expenses	(125,469)				(125,469)
Profit from operations	156,517				154,245
Interest expense	(30,993)			(11,418)	(42,411)
Share of gain of an associate	8				8
Profit before taxation	125,532				111,842
Income tax	(21,357)				(21,357)
Profit for the year	104,175				90,485
Attributable to:					
Equity shareholders of the Company	69,702	(2,272)	21,955	(11,418)	77,967
Non-controlling interest	34,473		(21,955)		12,518
Profit for the year	104,175				90,485

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2023	Unaudited Pro forma adjustments			The Enlarged Group for the year ended 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 5*	*Note 6*	
Profit for the year	104,175	(2,272)		(11,418)	90,485
Other comprehensive income for the year (after tax and reclassification adjustments)					
Item that will not be reclassified to profit or loss:					
Equity investments at fair value through other comprehensive income – net movement in fair value reserves (non-recycling)	(1,411)				(1,411)
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of – financial statements of entities with functional currencies other than RMB	304				304
Other comprehensive income for the year	(1,107)				(1,107)
Total comprehensive income for the year	103,068				89,378
Attributable to:					
Equity shareholders of the Company	68,595	(2,272)	21,955	(11,418)	76,860
Non-controlling interest	34,473		(21,955)		12,518
Total comprehensive income for the year	103,068				89,378

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP

	The Group for the year ended 31 December 2023	Unaudited Pro forma adjustments		The Enlarged Group for the year ended 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 6*	
Operating activities				
Profit before taxation	125,532	(2,272)	(11,418)	111,842
Adjustments for:				
Impairment loss on trade receivables	26,615			26,615
Amortisation of deferred income	(1,578)			(1,578)
Depreciation of property, plant and equipment	54,566			54,566
Amortisation of intangible assets	32,091			32,091
Interest expense	30,993		11,418	42,411
Interest income	(22,510)			(22,510)
Share of gain of an associate	(8)			(8)
Net loss on derivative financial instruments	6,674			6,674
Net loss on financial assets measured at FVPL	2,529			2,529
Net loss on disposal of property, plant and equipment	209			209
Reversal of stock obsolescence	(65)			(65)
	255,048			252,776
Changes in working capital:				
Increase in inventories	(43,262)			(43,262)
Increase in digital assets	(10,016)			(10,016)
Decrease in trade and other receivables	87,906			87,906
Increase in trade and other payables	44,726			44,726
Cash generated from operations	334,402			332,130
Interest received	8,050			8,050
Income taxes paid	(20,620)			(20,620)
Withholding tax paid	(694)			(694)
Net cash generated from operating activities	321,138			318,866

	The Group for the year ended 31 December 2023	Unaudited Pro forma adjustments			The Enlarged Group for the year ended 31 December 2023
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 3*	*Note 6*	
Investing activities					
Payment for acquisition of property, plant and equipment	(23,782)				(23,782)
Payment for acquisition of intangible assets	(28,163)				(28,163)
Payment for acquisition of financial assets measured at FVPL	(12,000)				(12,000)
Proceeds from disposal of property, plant and equipment	934				934
Proceeds from disposal of equity security designated as FVOCI	459				459
Payment of derivative financial instruments	(174,532)				(174,532)
Proceeds from derivative financial instruments	86,146				86,146
Payment for 2023 acquisition of subsidiaries	(205,877)		(522,000)		(727,877)
Payment for 2022 acquisition of subsidiaries	(45,000)				(45,000)
Payment for acquisition of a subsidiary which does not					–
constitute business	(5,850)				(5,850)
Payment for liquidation of a subsidiary	(695)				(695)
Payment for time deposits	(1,103,221)				(1,103,221)
Proceeds from time deposits	1,095,306				1,095,306
Interest received from time deposits	14,460				14,460
Increase in pledged bank deposits	(37,076)				(37,076)
Net cash used in investing activities	(438,891)				(960,891)
Financing activities					
Capital injection from NCI of a subsidiary	90,000				90,000
Capital element of lease rentals paid	(4,678)				(4,678)
Interest element of lease rentals paid	(322)				(322)
Other interest expense paid	(30,671)			(11,418)	(42,089)
Proceeds from bank loans	737,060		313,200		1,050,260
Repayment of bank loans	(555,082)			(64,893)	(619,975)
Net cash generated from financing activities	236,307				473,196
Net decrease in cash	118,554	(2,272)	(208,800)	(76,311)	(168,829)
Cash at 1 January	825,594				825,594
Effect of foreign exchange rate changes	715				715
Cash at 31 December	944,863				657,480

Notes to the Unaudited Pro Forma Financial Information

1. The audited consolidated statement of financial position of the Group as at 31 December 2023 and the audited consolidated statement of profit or loss, the audited consolidated statement of profit or loss and other comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2023 are extracted from the published annual report of the Company for the year ended 31 December 2023.

2. The adjustment represents the estimated transaction costs of approximately RMB2,272,000 to be paid by the Enlarged Group in connection with the Acquisition.

3. Consideration of RMB52,200,000 will be paid into the designated account of the Xuzhou Jinkan and Mr. Bai Yuanliao (the "**Vendors**") within 10 business days after signing the equity purchase agreement ("**Equity Purchase Agreement**").

   Consideration of RMB469,800,000 will be paid to the Vendors within 5 business days after payment of the first instalment, all conditions precedent set out in the Equity Purchase Agreement are fulfilled or waived and completion of change of shareholder registration.

   The Consideration was financed by (i) RMB208,800,000 from the Enlarged Group's internal resources; and (ii) RMB313,200,000 from the Enlarged Group's bank loan (the "**Loan**"). The Loan bears interest at 3.95% per annum, is unsecured and repayable within 4.5 years after drawdown. The Loan of RMB64,893,000 is payable within one year and is classified as current liabilities accordingly. The Loan of RMB248,307,000 is payable over one year and is classified as non-current liabilities accordingly.

   The adjustment represents the payment of the consideration of RMB522,000,000.

   In accordance with International Financial Reporting Standards 10 Consolidated Financial Statements, the acquisition of 49% equity interest in the Target Group is accounted for as equity transaction. Movement in equity attributable to equity shareholders of the Company is calculated as follows:

	RMB'000
Non-controlling interest	69,523
Consideration	(522,000)
Movement in equity attributable to equity shareholders of the Company	(452,477)

   The adjustment represents the acquisition of 49% equity interest in the Target Group.

4. In January 2024, the Company's indirect subsidiary, Nanjing Zhangyu Information Technology Co., Ltd (南京掌御信息科技有限公司) entered into an equity purchase agreement with the non-controlling shareholder of Wuxi Sihai Technology Co., Ltd. (無錫思海科技有限公司) to acquire 10% equity interest of Wuxi Sihai at a consideration of RMB8,037,000. The Unaudited Pro Forma Information has not taken into account for this acquisition.

5. The adjustment represents reversal of the profit and total comprehensive income for the year ended 31 December 2023 attributed to non-controlling interests of the Target Group.

6. For the purpose of compiling this unaudited pro forma consolidated statement of profit or loss, unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows, the Loan of RMB313,200,000 is assumed to be drawn down on 1 January 2023, date of completion of the Acquisition. The adjustment represents repayment of the principal of the Loan of RMB64,893,000 and payment of the Loan interest of RMB11,418,000 for the year ended 31 December 2023.

7. For the purpose of preparing the Unaudited Pro Forma Financial Information, the Directors have made an assessment on whether there is any impairment in respect of goodwill, property and equipment, right-of-use assets and intangible assets arising from the Acquisition with reference to IAS 36 ''Impairment of Assets''. They have taken into consideration the historical financial performance of the Target Group and synergy effect to the business of the Enlarged Group as key parameters for the assessment. Based on the assessment results, the Directors concluded that there is no impairment in the value of goodwill, property and equipment, right-of-use assets and intangible assets.

   Upon completion of the Acquisition and at the end of each reporting period, the Group will adopt consistent accounting policies, principal assumptions and methodology of impairment assessment (as used in the Unaudited Pro Forma Financial Information) to assess the impairment of the Enlarged Group's goodwill, property and equipment, right-of-use assets and intangible assets.

8. Other than the above adjustments, no other adjustment had been made to the Unaudited Pro Forma Information to reflect any trading results or other transactions that the Enlarged Group and the Target Group entered subsequent to 31 December 2023. The above adjustments are not expected to have a continuing effect on the unaudited pro forma financial information of the Enlarged Group.

The following is the text of a report received from the reporting accountants, CL Partners CPA Limited, Certified Public Accountants, Hong Kong, in respect of the Enlarged Group's pro forma financial information for the purpose in this circular.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF HENGXIN TECHNOLOGY LTD.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hengxin Technology Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2023, the unaudited pro forma consolidated statement of profit or loss, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2023 and related notes as set out in Appendix IV to the circular dated 25 June 2024 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described in Appendix IV to the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company (the "**Directors**") to illustrate the impact of the proposed acquisitions of Nanjing Zhangyu Information Technology Co., Ltd. and its subsidiaries and Shanghai Zhangyu Information Technology Co., Ltd. and its subsidiaries (collectively the "**Target Group**") (the "**Acquisitions**") on the Enlarged Group's financial position as at 31 December 2023 as if the Acquisition had taken place at 31 December 2023; and the Enlarged Group's financial performance and cash flows for the year ended 31 December 2023 as if the Acquisition had taken place at 1 January 2023. As part of this process, information about the Group's financial position as at 31 December 2023 and the Group's financial performance and cash flows for the year ended 31 December 2023 have been extracted by the Directors from the consolidated financial statements of the Group for the year ended 31 December 2023, on which an audit report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Management 1 “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements”, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“**HKSAE**”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Enlarged Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2023 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

CL Partners CPA Limited
Certified Public Accountants
HONG, Ting
Practising Certificate Number: P07069
Hong Kong

25 June 2024

The following is the text of a letter and valuation report, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connected with its valuation as at 31 December 2023 of the 100% equity interests in the Nanjing Zhangyu.

25 June 2024

The Board of Directors
Hengxin Technology Ltd.
6th Floor, The Chinese Club Building
21-22 Connaught Road Central, Hong Kong

Dear Sirs,

In accordance with the instructions received from Hengxin Technology Ltd. ("**Hengxin Technology**" or the "**Company**"), we have undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100 Percent Equity Interest in Nanjing Zhangyu Information Technology Co., Ltd. ("**Nanjing Zhangyu**" or "**Target**", inclusive of its subsidiaries to be referred to collectively as the "**Nanjing Zhangyu Group**") as at 31 December 2023 (the "**Valuation Date**"). The report which follows is dated 25 June 2024 (the "**Report Date**").

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

The conclusion of value is based on the accepted valuation procedures and practices that rely substantially on our use of numerous assumptions and our consideration of various factors that are relevant to the operation of the Target. We have also considered various risks and uncertainties that have potential impact on the Target.

We do not intend to express any opinion in matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the market value of 100 percent equity interest in the Target as at the Valuation Date is RMB806,727,000.

The following pages outline the factors considered, methodology and assumptions employed in formulating our opinions and conclusions. Any opinions are subject to the assumptions and limiting conditions contained therein.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

INTRODUCTION

In accordance with the instructions received from Hengxin Technology Ltd. ("**Hengxin Technology**" or the "**Company**"), we have undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100 percent equity interest in Nanjing Zhangyu Information Technology Co., Ltd. ("**Nanjing Zhangyu**" or "**Target**", inclusive of its subsidiaries to be referred to collectively as the "**Nanjing Zhangyu Group**") as at 31 December 2023 (the "**Valuation Date**"). The report which follows is dated 25 June 2024 (the "**Report Date**").

PURPOSE OF VALUATION

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

BASIS OF OPINION

Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

BACKGROUND

Nanjing Zhangyu and Wuxi Sihai Technology Co., Ltd. ("**Wuxi Sihai**") are both principally engaged in providing chips research, design, sales and supply chain services, semiconductor intellectual property authorization with a focus on logic and microprocessor chips in fields such as the IoT, cloud security and industrial control in Mainland China. Zhejiang Zhongguang New Energy Technology Co., Ltd. ("**Zhejiang Zhongguang**", inclusive of its subsidiaries to be referred to collectively as the "**Zhejiang Zhongguang Group**") is principally engaged in the supply of electricity with a focus on the production and sales of solar power as well as the provision of development consultation and technical services of the solar thermal power generation technology in Mainland China.

According the management of the Target, in 2023, Nanjing Zhangyu and Wuxi Sihai derived 100% of their revenues from providing chips research, design, sales and supply chain services, semiconductor intellectual property authorization; Zhejiang Zhongguang Group derived 100% of its revenue from the operation of solar power station and related business; Nanjing Zhangyu, Wuxi Sihai and Zhejiang Zhongguang Group derived 100% of their revenues from the operation in Mainland China.

Nanjing Zhangyu holds 80 percent of Wuxi Sihai and 87.67 percent of Hangzhou Longkong Zhongguang Enterprise Holding Enterprise Partnership (Limited Partnership) ("**Longkong Zhongguang**"), and Longkong Zhongguang holds 51 percent of Zhejiang Zhongguang as at the Valuation Date. Longkong Zhongguang has no business operations. In 2022, Hengxin Technology acquired 51 percent equity interest in Nanjing Zhangyu. In 2023, Longkong Zhongguang acquired 51 percent equity interest in Zhejiang Zhongguang.

The summary of the financial information of the Nanjing Zhangyu Group for the years ended 31 December 2022 and 31 December 2023 are set out below:

	Years ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Revenue	**235,985**	132,539
Net profit after taxation	**61,432**	36,260
Total equity	**865,532**	57,425

An indirect wholly-owned subsidiary the Company, Xin Ke Xin (Suzhou) Technology Co., Ltd. (as transferee) and Xuzhou Jinkan Management Consulting Partnership (Limited Liability Partnership) and Mr. Bai Yuanliao (as transferors) have entered into a conditional framework agreement which allows Xin Ke Xin (Suzhou) Technology Co., Ltd. to acquire a total of 49 percent equity interest in the Target.

APPROACH AND METHODOLOGY

In arriving the market value of 100 percent equity interest in the Target, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach.

Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition of the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market.

Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Selection of Valuation Approach and Methodology

To select the most appropriate approach, we have considered the purpose of the valuation engagement and the resulting basis of value as well as the availability and reliability of information provided to us to perform an analysis. We have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Target. In our opinion, the cost approach is inappropriate for valuing the Target, as it does not directly incorporate information about the economic benefits contributed by the Target. The income approach is not the most optimal approach as it involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained. We have therefore relied on the market approach in determining our opinion of value.

There are two common methods under market approach, namely, guideline public companies method and guideline transaction method. Guideline public companies method requires identifying suitable guideline public companies and selection of appropriate trading multiples, while guideline transaction method takes reference to recent mergers and acquisitions transaction between unrelated parties and ratio of transaction price to Target's financial metrics.

In this exercise, the market value of equity interest in the Target was developed through the guideline public company method. The guideline transaction method is not adopted due to lack of sufficient recent market transactions with similar nature as the Target. The guideline public company method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple. In this valuation, we have considered the following commonly used benchmark multiples:

Benchmark multiple	Abbreviation	Analysis
Price to earnings	P/E	Not used. P/E is not selected as it does not capture the financial leverage and other related risk feature across the companies.
Price to book	P/B	Not used. P/B multiple is not selected as P/B fail to capture the intangible company-specific competencies and advantages so in general, the equity's book value has little bearing with its fair value.

Benchmark multiple	Abbreviation	Analysis
Price to sales & Enterprise Value to Sales	P/S & EV/S	Not used. P/S & EV/S are not used in the valuation as P/S & EV/S do not take into account a company's profitability.
Enterprise Value to EBITDA	EV/EBITDA	Adopted. EV/EBITDA is suitable for profitable companies and can factor in differences in balance sheet positions between the subject and the comparable companies.

In this valuation, The EV/EBITDA Ratio is defined as the current enterprise value to the earnings before interest, tax, depreciation and amortization of the Target from 1 January 2023 to 31 December 2023. The EV/EBITDA Ratio is a capital structure neutral ratio since it takes into account the debt and earnings before interest expenses. It allows us to compare the Target against the comparable companies without considering how each comparable company finances its operations.

We conduct the valuation of Nanjing Zhangyu at the individual company level, as well as separate valuations for Wuxi Sihai and Zhejiang Zhongguang. The market value of Longkong Zhongguang is calculated with a net asset value model because Longkong Zhongguang has no business operations. The market value of equity interest in the Target is the sum of 100 percent market value of Nanjing Zhangyu, 80 percent market value of Wuxi Sihai and 87.67 percent market value of Longkong Zhongguang.

Adjustment of EV/EBITDA Ratios

The comparable companies are often of significantly different size from the target. Larger companies are generally perceived as less risky in relation to business operation and financial performance, and thus the expected returns are lower and resulting in higher multiples. Therefore, the base multiples were adjusted to reflect the difference in size between the comparable companies and the target.

The adjusted EV/EBITDA Ratios were calculated using the following formula:

Adjusted EV/EBITDA Ratio = $1/((1/M) + \alpha * \varepsilon * \theta)$

Where:

M = *The Base EV/EBITDA Ratio*

α = *The scale factor, which converts the base measure of the benefits to an alternative measure of benefits for the comparable companies*

ε = *The ratio of the equity value to the enterprise value of the comparable company*

θ = *Required adjustment in the equity discount rate for difference in size*

M is the base EV/EBITDA ratio and we take the reciprocal of M to come up with 1/M. The logic behind the pricing multiple adjustments is that the reciprocal of the base multiple represents a capitalization rate. In this valuation, the reciprocal of the base EV/EBITDA multiple represents a capitalization rate of the enterprise value.

For the parameter θ, it was used as a desired adjustment to reflect the difference in natures between the comparable companies and the target. With reference to the 2024 SBBI® Yearbook published by Kroll Inc. (previously Duff & Phelps), size premium differentials of 0.00%-4.24% were adopted to capture how much the market capitalization of each of the comparable companies is larger than the market value of the target.

The ratio of the market capitalization to enterprise value ε was adopted as a weighting factor. As aforesaid, the logic behind this formula is that a pricing multiple is the reciprocal of the capitalization rate. In the case of an enterprise value multiple, the capitalization rate is driven by the weighted average cost of capital ("WACC") of the valuation subject. Since the size and country risk premium differentials "θ" are applicable only to the equity portion (for a listed company, market capitalization represents the market value of its equity) but not to the debt portion of the WACC, we only adjust the equity portion of the capitalization rate in this pricing multiple adjustment formula. The ratio ε was used to apply an appropriate weighting on the parameter θ so that the capitalization rate was adjusted only to the extent of its equity portion. In other words, the ratio ε takes into account of the varying capital structures among the comparable companies. Market capitalization and enterprise value of comparable companies are obtained from Bloomberg.

The ratio of EBITDA to net operating profit after tax ("NOPAT") was used as a scale factor α, which is applied in the adjustment of the EV/EBITDA multiple. It is considered that the base measure of the benefits for enterprise value to be NOPAT (Hitchner, 2017), which is a financial measure that shows how well a company performed through its core operations net of taxes and it excludes tax savings from existing debt and one-time losses or charges. As EV/EBITDA was adopted as the pricing multiple in this valuation, EBITDA becomes an alternative measure of the benefits for enterprise value in the pricing multiple adjustment formula. Hence, α was used as a scale factor for the alternative measure of benefit. EBITDA and NOPAT of comparable companies are obtained from Bloomberg.

ASSUMPTIONS

In this exercise, we have applied the following assumptions as at the Valuation Date in deriving the market value of the 100 percent equity interest in the Target.

General Assumptions

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target;
- The operational and contractual terms stipulated in the relevant contracts and agreements will be honored;

- The facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge; and

- We have assumed that there are no hidden or unexpected conditions associated with the Target that might adversely affect the reported values. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

Market Multiple

Nanjing Zhangyu and Wuxi Sihai

Under guideline public company method, which requires identifying suitable guideline public companies and selection of appropriate trading multiples, in determining the financial multiple, a list of comparable companies was identified. The selection criteria, which are based on the business nature and operation status of Nanjing Zhangyu and Wuxi Sihai as discussed in BACKGROUND, include the followings:

- The companies are publicly listed on HKEX, SZSE or SSE;

- The companies have been listed no fewer than six months;

- The companies derive at least 50% of their revenues from the same industry of Nanjing Zhangyu and Wuxi Sihai, i.e. chips research, design, sales and supply chain services, semiconductor intellectual property authorization with a focus on logic and microprocessor chips in fields such as the IoT, cloud security and industrial control;

- The companies derive at least 50% of their revenues from the operation in Mainland China, which is the same as Nanjing Zhangyu and Wuxi Sihai;

- The companies have positive Net Operating Profit After Tax ("**NOPAT**"), which is the same as Nanjing Zhangyu and Wuxi Sihai; and

- Sufficient data, including the EV/EBITDA Multiples as at the Valuation Date of the companies, is available.

The comparable companies satisfying the aforementioned criteria are:

Ticker	Name	% of Revenue from chips research, design, sales and supply chain services, semiconductor intellectual property authorization[1]	% of Revenue from China[2]	NOPAT[3]	EV/EBITDA ratio before adjustment[3]
688018 CH Equity	Espressif Systems (Shanghai) Co., Ltd.	99.15%	63.14%	72.23	101.66
688620 CH Equity	Guangzhou Anyka Microelectronics Co., Ltd.	97.71%	58.96%	33.98	60.66
688589 CH Equity	Leaguer (Shenzhen) Microelectronics Corp.	99.75%	100.00%	105.03	34.04
688008 CH Equity	Montage Technology Co., Ltd.	100.00%	66.88%	234.05	194.51
603893 CH Equity	Rockchip Electronics Co., Ltd.	98.15%	68.45%	28.83	305.71
1385 HK Equity	Shanghai Fudan Microelectronics Group Company Limited	93.02%	90.96%	1,036.38	20.69
300327 CH Equity	Sino Wealth Electronic Ltd.	99.97%	77.28%	170.49	41.47
002049 CH Equity	Unigroup Guoxin Microelectronics Co., Ltd.	95.57%	91.05%	2,766.94	17.37
688521 CH Equity	VeriSilicon Microelectronics (Shanghai) Co., Ltd.	100.00%	64.87%	107.59	95.53
688041 CH Equity	Hygon Information Technology Co., Ltd.	100.00%	100.00%	1,136.27	86.44
688279 CH Equity	Fortior Technology (Shenzhen) Co., Ltd.	100.00%	94.14%	90.22	111.17
688391 CH Equity	Hi-Trend Technology (Shanghai) Co., Ltd.	99.51%	96.88%	169.25	18.89

Notes:

1. The percentage of revenue is directly extracted from annual reports of the comparable companies or calculated based on revenue segments or operating segments information if direct data is unavailable.

2. The percentage of revenue is directly extracted from annual reports of the comparable companies or calculated based on revenue segments or operating segments information if direct data is unavailable.

3. Retrieved from Bloomberg based on latest data available.

The details of the adjustments of the comparable companies are as follows:

Ticker	Name	Total Adjustment ($\alpha * \varepsilon * \theta$)
688018 CH Equity	Espressif Systems (Shanghai) Co., Ltd.	3.75%
688620 CH Equity	Guangzhou Anyka Microelectronics Co., Ltd.	8.00%
688589 CH Equity	Leaguer (Shenzhen) Microelectronics Corp.	4.00%
688008 CH Equity	Montage Technology Co., Ltd.	6.01%
603893 CH Equity	Rockchip Electronics Co., Ltd.	11.28%
1385 HK Equity	Shanghai Fudan Microelectronics Group Company Limited	4.25%
300327 CH Equity	Sino Wealth Electronic Ltd.	3.65%
002049 CH Equity	Unigroup Guoxin Microelectronics Co., Ltd.	4.88%
688521 CH Equity	VeriSilicon Microelectronics (Shanghai) Co., Ltd.	9.11%
688041 CH Equity	Hygon Information Technology Co., Ltd.	7.12%
688279 CH Equity	Fortior Technology (Shenzhen) Co., Ltd.	3.84%
688391 CH Equity	Hi-Trend Technology (Shanghai) Co., Ltd.	4.61%

The Adjusted EV/EBITDA Ratios of the comparable companies are shown as follows:

Ticker	Name	Adjusted EV/ EBITDA Ratio
688018 CH Equity	Espressif Systems (Shanghai) Co., Ltd.	21.13
688620 CH Equity	Guangzhou Anyka Microelectronics Co., Ltd.	10.36
688589 CH Equity	Leaguer (Shenzhen) Microelectronics Corp.	14.42
688008 CH Equity	Montage Technology Co., Ltd.	15.32
603893 CH Equity	Rockchip Electronics Co., Ltd.	8.62
1385 HK Equity	Shanghai Fudan Microelectronics Group Company Limited	11.01
300327 CH Equity	Sino Wealth Electronic Ltd.	16.50
002049 CH Equity	Unigroup Guoxin Microelectronics Co., Ltd.	9.40
688521 CH Equity	VeriSilicon Microelectronics (Shanghai) Co., Ltd.	9.84
688041 CH Equity	Hygon Information Technology Co., Ltd.	12.08
688279 CH Equity	Fortior Technology (Shenzhen) Co., Ltd.	21.08
688391 CH Equity	Hi-Trend Technology (Shanghai) Co., Ltd.	10.09

The average of the EV/EBITDA Ratio is calculated at 13.32 and is adopted as the EV/EBITDA Ratio for the valuation on the market value of the equity interest in the Nanjing Zhangyu and Wuxi Sihai.

Zhejiang Zhongguang

Under guideline public company method, which requires identifying suitable guideline public companies and selection of appropriate trading multiples, in determining the financial multiple, a list of comparable companies was identified. The selection criteria, which are based on the business nature and operation status of Zhejiang Zhongguang as discussed in BACKGROUND, include the followings:

- The companies are publicly listed on HKEX, SZSE or SSE;
- The companies have been listed no fewer than six months;
- The companies derive at least 50% of their revenues from the same industry of Zhejiang Zhongguang, i.e. operation of solar power station and related business;
- The companies derive at least 50% of their revenues from the operation in Mainland China, which is the same as Zhejiang Zhongguang;
- The companies have positive Net Operating Profit After Tax ("**NOPAT**"), which is the same as Zhejiang Zhongguang; and
- Sufficient data, including the EV/EBITDA Multiples as at the Valuation Date of the companies, is available.

The comparable companies satisfying the aforementioned criteria are:

Ticker	Name	% of Revenue from operation of solar power station and related business[1]	% of Revenue from China[2]	NOPAT[3]	EV/EBITDA ratio before adjustment[3]
686 HK Equity	Beijing Energy International Holding Co., Ltd.	88.04%	100.00%	1,692.20	14.48
000591 CH Equity	CECEP Solar Energy Co., Ltd.	99.74%	100.00%	1,977.92	9.76
601778 CH Equity	Jinko Power Technology Co., Ltd.	98.67%	96.07%	958.02	10.62
600821 CH Equity	NYOCOR Co., Ltd.	57.81%	100.00%	1,507.16	11.95
1250 HK Equity	Shandong Hi-Speed New Energy Group Limited	56.61%	90.00%	1,498.45	9.36
000040 CH Equity	Tunghsu Azure Renewable Energy Co., Ltd.	65.64%	99.34%	141.59	21.11
3868 HK Equity	Xinyi Energy Holdings Limited	100.00%	100.00%	1,021.10	8.13
603105 CH Equity	Zhejiang Sunoren Solar Technology Co., Ltd.	86.35%	97.84%	275.78	14.92

Notes:

1. The percentage of revenue is directly extracted from annual reports of the comparable companies or calculated based on revenue segments or operating segments information if direct data is unavailable.

2. The percentage of revenue is directly extracted from annual reports of the comparable companies or calculated based on revenue segments or operating segments information if direct data is unavailable.

3. Retrieved from Bloomberg based on latest data available.

The details of the adjustments of the comparable companies are as follows:

Ticker	**Name**	**Total Adjustment ($\alpha * \varepsilon * \theta$)**
686 HK Equity	Beijing Energy International Holding Co., Ltd.	0.00%
000591 CH Equity	CECEP Solar Energy Co., Ltd.	1.18%
601778 CH Equity	Jinko Power Technology Co., Ltd.	0.74%
600821 CH Equity	NYOCOR Co., Ltd.	0.41%
1250 HK Equity	Shandong Hi-Speed New Energy Group Limited	0.27%
000040 CH Equity	Tunghsu Azure Renewable Energy Co., Ltd.	1.56%
3868 HK Equity	Xinyi Energy Holdings Limited	0.78%
603105 CH Equity	Zhejiang Sunoren Solar Technology Co., Ltd.	1.20%

The Adjusted EV/EBITDA Ratios of the comparable companies are shown as follows:

Ticker	**Name**	**Adjusted EV/ EBITDA Ratio**
686 HK Equity	Beijing Energy International Holding Co., Ltd.	14.48
000591 CH Equity	CECEP Solar Energy Co., Ltd.	8.75
601778 CH Equity	Jinko Power Technology Co., Ltd.	9.85
600821 CH Equity	NYOCOR Co., Ltd.	11.39
1250 HK Equity	Shandong Hi-Speed New Energy Group Limited	9.13
000040 CH Equity	Tunghsu Azure Renewable Energy Co., Ltd.	15.89
3868 HK Equity	Xinyi Energy Holdings Limited	7.65
603105 CH Equity	Zhejiang Sunoren Solar Technology Co., Ltd.	12.66

The average of the EV/EBITDA Ratio is calculated at 11.23 and is adopted as the EV/EBITDA Ratio for the valuation on the market value of the equity interest in the Zhejiang Zhongguang.

Discount for Lack of Marketability (DLOM)

A factor to be considered in valuing closely held companies such as the Target is the marketability of an interest in such businesses. Marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists.

For this exercise, the indicated discount for lack of marketability adopted for the equity interest in the Nanjing Zhangyu and Wuxi Sihai is 15.80% (Manufacturing) as at the Valuation Date, the indicated discount for lack of marketability adopted for the equity interest in the Longkong Zhongguang is 16.10% (Electric, Gas, and Sanitary Services) as at the Valuation Date, based on a study *2023 edition of the Stout Restricted Stock Study Companion Guide* issued by Stout Risius Ross, LLC. The study represents the most widely used and accepted database available to valuators for DLOM determination.

Control Premiums and Discount for Lack of Control (DLOC)

Control Premium and Discount for Lack of Control (DLOC) are applied to reflect differences between the comparables and the subject asset with regard to the ability to make decisions. A Control Premium is defined as the additional consideration that an investor would pay over a marketable minority equity value in order to own a controlling interest in the common stock of a company. As the Target operates in different business sectors, and it holds 80 percent equity interest in Wuxi Sihai and Longkong Zhongguang holds 51 percent equity interest in Zhejiang Zhongguang, which reflects a controlling interest, a control premium is adopted to calculate the market value of Nanjing Zhangyu, Wuxi Sihai and Zhejiang Zhongguang, which is common practice. The DLOC is the reduction applied to the valuation of a minority equity position in a company due to the absence of control. It is usually calculated as the reciprocal of the control premium. Minority shareholders usually have the inability to dictate the future strategic direction of the company, the election of directors, the nature, quantum and timing of their return on investment, or even the sale of their own shares. This absence of control reduces the value of the minority equity position against the total enterprise value of the company. As the Company intended to acquire 49 percent equity interest in the Target, which reflects a minority equity interest, a DLOC is adopted to calculate the market value of the Target, which is common practice. Excluding the consideration of Control Premium for the subsidiaries could result in double discounting when implementing the DLOC at the consolidated level. In this report, the calculation takes into account the diversity of the Target's business, the complexity of its ownership structure and the purpose of this valuation, making it the most appropriate.

Based on the Mergerstat Control Premium Study (3rd and 4th Quarter 2023) published by FactSet Mergerstat, LLC., the DLOC of 22.90% and the control premium of 29.85% is adopted in this valuation. The Control Premium Study published by FactSet Mergerstat, LLC. is a widely accepted sources among valuers.

CALCULATION OF VALUATION RESULT

Nanjing Zhangyu

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date. We have also taken into account the two factors, including the DLOM and control premium. The calculation of the market value of the 100 percent equity interest in the Nanjing Zhangyu as at the Valuation Date is as follows:

	As at 31 December 2023 *RMB'000*
Trailing 12 months EBITDA of the Nanjing Zhangyu*	60,654
Adjusted EV/EBITDA Ratio	13.32
Enterprise Value of the Nanjing Zhangyu	**807,976**
Add: Cash and Cash Equivalents**	12,368
Less: Preferred Equity**	–
Less: Minority Interest**	–
Less: Debt and Lease Liabilities**	(261,689)
100 Percent Equity Interest in Nanjing Zhangyu (marketable, non-controlling)	**558,655**
Add: Control Premium (29.85%)	166,758
100 Percent Equity Interest in Nanjing Zhangyu (marketable, controlling)	**725,413**
Less: Discount for Lack of Marketability (15.80%)	(114,615)
100 Percent Equity Interest in Nanjing Zhangyu (non-marketable, controlling)	**610,798**

Note: * The trailing 12 months EBITDA of the Nanjing Zhangyu were based on the audited financial figures for the years ended 31 December 2023 from the auditor. The trailing 12 months EBITDA of Nanjing Zhangyu is calculated as follow:

	2023 *Audited (RMB'000)*
Revenue	94,958
+ Other income	267
– Cost of sales	-24,754
– Selling expenses	-691
– Administrative expenses	-4,183
– Other operating expenses	-6,567
EBIT	**59,029**
+ D&A	1,626
EBITDA	**60,654**

** The figures of Cash and Cash Equivalents, Preferred Equity, Minority Interest, Debt and Lease Liabilities were all extracted from the audited financial figures for the years ended 31 December 2023 from the auditor.

Wuxi Sihai

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date. We have also taken into account the two factors, including the DLOM and control premium. The calculation of the market value of the 80 percent equity interest in the Wuxi Sihai as at the Valuation Date is as follows:

	As at 31 December 2023 *RMB'000*
Trailing 12 months EBITDA of the Wuxi Sihai*	6,120
Adjusted EV/EBITDA Ratio	13.32
Enterprise Value of the Wuxi Sihai	**81,525**
Add: Cash and Cash Equivalents**	6,454
Less: Preferred Equity**	–
Less: Minority Interest**	–
Less: Debt and Lease Liabilities**	–
100 Percent Equity Interest in Wuxi Sihai (marketable, non-controlling)	**87,979**
Add: Control Premium (29.85%)	26,262
1100 Percent Equity Interest in Wuxi Sihai (marketable, controlling)	**114,240**
Less: Discount for Lack of Marketability (15.80%)	(18,050)
100 Percent Equity Interest in Wuxi Sihai (non-marketable, controlling)	**96,190**
80 Percent Equity Interest in Wuxi Sihai (non-marketable, controlling)	**76,952**

Note: * The trailing 12 months EBITDA of the Wuxi Sihai were based on the audited financial figures for the years ended 31 December 2023 from the auditor. The trailing 12 months EBITDA of Wuxi Sihai is calculated as follow:

	2023 *Audited (RMB'000)*
Revenue	74,661
+ Other income	1,161
– Cost of sales	-65,938
– Selling expenses	-402
– Administrative expenses	-350
– Other operating expenses	-3,155
EBIT	**5,977**
+ D&A	143
EBITDA	**6,120**

** The figures of Cash and Cash Equivalents, Preferred Equity, Minority Interest, Debt and Lease Liabilities were all extracted from the audited financial figures for the years ended 31 December 2023 from the auditor.

Zhejiang Zhongguang

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date. We have also taken into account the two factors, including the DLOM and control premium. The calculation of the market value of the 51 percent equity interest in the Zhejiang Zhongguang as at the Valuation Date is as follows:

	As at 31 December 2023 *RMB'000*
Trailing 12 months EBITDA of the Zhejiang Zhongguang*	126,777
Adjusted EV/EBITDA Ratio	11.23
Enterprise Value of the Zhejiang Zhongguang	**1,423,068**
Add: Cash and cash equivalents**	431,369
Add: Excess Asset – Joint Venture**	4,178
Add: Excess Asset – Derivative Financial Assets**	82,041
Add: Excess Asset – Other Investments**	2,949
Less: Preferred Equity**	–
Less: Minority Interest**	(755)
Less: Debt and Lease Liabilities**	(500,971)
100 Percent Equity Interest in Zhejiang Zhongguang (marketable, non-controlling)	**1,441,880**
Add: Control Premium (29.85%)	430,401
100 Percent Equity Interest in Zhejiang Zhongguang (marketable, controlling)	**1,872,281**
Less: Discount for Lack of Marketability (16.10%)	(301,437)
100 Percent Equity Interest in Zhejiang Zhongguang (non-marketable, controlling)	**1,570,844**
51 Percent Equity Interest in Zhejiang Zhongguang (non-marketable, controlling)	**801,130**

Note: * The trailing 12 months EBITDA of the Zhejiang Zhongguang were based on the unaudited financial figures for the years ended 31 December 2023 from the management. The trailing 12 months EBITDA of Zhejiang Zhongguang is calculated as follow:

	2023
	Unaudited (RMB'000)
Revenue	155,748
+ Other income	16,435
– Cost of sales	-58,092
– Selling expenses	–
– Administrative expenses	-25,166
– Other operating expenses	-10,073
EBIT	**78,852**
+ D&A	47,924
EBITDA	**126,777**

** The figures of Cash and Cash Equivalents, Excess Assets, Preferred Equity, Minority Interest, Debt and Lease Liabilities were all extracted from the audited financial figures for the years ended 31 December 2023 from the auditor.

Longkong Zhongguang

The calculation of the market value of the 87.67 percent equity interest in the Longkong Zhongguang as at the Valuation Date is as follows:

	Book Value	**Market Value**
	RMB'000	*RMB'000*
Long-term Investments – Zhejiang Zhongguang	726,390	801,130
Total Non-current Assets	**726,390**	**801,130**
Cash and Cash Equivalents	124	124
Total Current Assets	**124**	**124**
Long-term Borrowings Due within One Year	39,224	39,224
Total Current Liabilities	**39,224**	**39,224**
Long-term Borrowings	353,016	353,016
Total Long-term Liabilities	**353,016**	**353,016**
Net Asset Value	**334,275**	**409,015**
100 Percent Equity Interest in Longkong Zhongguang (non-marketable, controlling)		**409,015**
87.67 Percent Equity Interest in Longkong Zhongguang (non-marketable, controlling)		**358,588**

Nanjing Zhangyu

	As at 31 December 2023
100 Percent Equity Interest in Nanjing Zhangyu (non-marketable, controlling)	610,798
80 Percent Equity Interest in Wuxi Sihai (non-marketable, controlling)	76,952
87.67 Percent Equity Interest in Longkong Zhongguang (non-marketable, controlling)	358,588
100 Percent Equity Interest in Nanjing Zhangyu (non-marketable, controlling)	**1,046,338**
Less: Discount for Lack of Control (22.90%)	(239,611)
100 Percent Equity Interest in Nanjing Zhangyu (non-marketable, non-controlling)	**806,727**
Market Value of 100 Percent Equity Interest in Nanjing Zhangyu (Rounded)	**806,727**

VALUATION COMMENTS

The valuation of the market value of equity interest in the Target requires consideration of all relevant factors affecting the operation of the business related to the Target and its ability to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

– The nature of the business;

– The financial condition of the business and the economic outlook in general; and

– The financial and business risk of the enterprise including the continuity of income and the projected future results.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. In particular, details about the assumptions can be found under the heading "Assumptions" in this Report. Further, while the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

OPINION OF VALUE

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the market value of 100 percent equity interest in the Target as at the Valuation Date is reasonably stated as follows:

Nanjing Zhangyu	Market Value (RMB'000)
100 percent equity interest	806,727

LIMITING CONDITIONS

This report and opinion of value are subject to our Limiting Conditions as attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Simon M.K. Chan
Executive Director

Note: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS). He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/ engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the Company's/engagement parties' analysis in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the subject property rests solely with the Company/engagement parties.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The management and the Board of the Company/engagement parties have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of engagement letter/proposal and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation/Reference Date. We cannot provide assurance on the achievability of the results forecasted by the Company/

engagement parties (if any) because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results (if any) is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any their party without our prior written consent. Even with our prior written consent for such, we are not liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the client and the calculation of values expressed herein is valid only for the purpose stated in the engagement letter/or proposal as of the Valuation/Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.

15. This exercise is premised in part on the historical financial information and future forecast (if any) provided by the management of the Company/engagement parties and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

16. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/engagement parties and other sources. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

17. The management or staff of the Company/engagement parties and/or its representatives have confirmed to us that the transaction or themselves or the parties involved in the pertained assets or transaction are independent to our firm and Jones Lang LaSalle Corporate Appraisal and Advisory Limited in this valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independency in our work, the Company/engagement parties and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

VALUERS' PROFESSIONAL DECLARATION

The following valuers certify, to the best of their knowledge and belief, that:

– Information has been obtained from sources that are believed to be reliable. All facts which have a bearing on the value concluded have been considered by the valuers and no important facts have been intentionally disregarded.

– The reported analyses, opinions, and conclusions are subject to the assumptions as stated in the report and based on the valuers' personal, unbiased professional analyses, opinions, and conclusions. The valuation exercise is also bounded by the limiting conditions.

– The reported analyses, opinions, and conclusions are independent and objective.

– The valuers have no present or prospective interest in the asset that is the subject of this report, and have no personal interest or bias with respect to the parties involved.

– The valuers' compensation is not contingent upon the quantum of the value assessed, the attainment of a stipulated result, the occurrence of a subsequent event, or the reporting of a predetermined value or direction in value that favours the cause of the client.

– The analyses, opinions, and conclusions were developed, and this report has been prepared, in accordance with the International Valuation Standards published by the International Valuation Standards Council.

– The under mentioned persons provided professional assistance in the compilation of this report.

Simon M.K. Chan
Executive Director

Hunter Z.W. He
Senior Director

Kevin H.K.Yang
Senior Analyst

The following is the text of a letter and valuation report, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connected with its valuation as at 31 December 2023 of the 100% equity interests in the Shanghai Zhangyu.

25 June 2024

The Board of Directors
Hengxin Technology Ltd.
6th Floor, The Chinese Club Building
21-22 Connaught Road Central, Hong Kong

Dear Sirs,

In accordance with the instructions received from Hengxin Technology Ltd. ("**Hengxin Technology**" or the "**Company**"), we have undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100 Percent Equity Interest in Shanghai Zhangyu Information Technology Co., Ltd. ("**Shanghai Zhangyu**" or the "**Target**", inclusive of its subsidiaries to be referred to collectively as the "**Shanghai Zhangyu Group**") as at 31 December 2023 (the "**Valuation Date**"). The report which follows is dated 25 June 2024 (the "**Report Date**").

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

The conclusion of value is based on the accepted valuation procedures and practices that rely substantially on our use of numerous assumptions and our consideration of various factors that are relevant to the operation of the Target. We have also considered various risks and uncertainties that have potential impact on the Target.

We do not intend to express any opinion in matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the market value of 100 percent equity interest in the Target as at the Valuation Date is RMB260,056,000.

The following pages outline the factors considered, methodology and assumptions employed in formulating our opinions and conclusions. Any opinions are subject to the assumptions and limiting conditions contained therein.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

INTRODUCTION

In accordance with the instructions received from Hengxin Technology Ltd. ("**Hengxin Technology**" or the "**Company**"), we have undertaken a valuation exercise which requires us to express an independent opinion on the market value of 100 percent equity interest in Shanghai Zhangyu Information Technology Co., Ltd. ("**Shanghai Zhangyu**" or the "**Target**", inclusive of its subsidiaries to be referred to collectively as the "**Shanghai Zhangyu Group**") as at 31 December 2023 (the "**Valuation Date**"). The report which follows is dated 25 June 2024 (the "**Report Date**").

PURPOSE OF VALUATION

The purpose of this valuation is for internal reference by the Company and inclusion in its public disclosure.

BASIS OF OPINION

Our valuation was carried out on a market value basis. Market value is defined as "*the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion*".

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

BACKGROUND

Shanghai Zhangyu is principally engaged in the provision of cyber security and software solution in the financial sector. In 2022, Hengxin Technology acquired 51% equity interest in Shanghai Zhangyu.

According the management of the Target, in 2023, Shanghai Zhangyu Group derived 51% of its revenue from the provision of cyber security and software solution in the financial sector; and derived 55% of its revenue from the operation in Mainland China.

The summary of the financial information of Shanghai Zhangyu Group for the years ended 31 December 2022 and 31 December 2023 are set out below:

	Years ended 31 December	
	2023	2022
	RMB'000	*RMB'000*
Revenue	**43,751**	15,413
Net profit after taxation	**17,218**	6,389
Total equity	**21,004**	3,786

An indirect wholly-owned subsidiary the Company, Xin Ke Xin (Suzhou) Technology Co., Ltd. (as transferee) and Xuzhou Jinkan Management Consulting Partnership (Limited Liability Partnership) and Mr. Bai Yuanliao (as transferors) have entered into a conditional framework agreement which allows Xin Ke Xin (Suzhou) Technology Co., Ltd. to acquire a total of 49 percent equity interest in the Target.

APPROACH AND METHODOLOGY

In arriving the market value of 100 percent equity interest in the Target, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach.

Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition of the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market.

Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Selection of Valuation Approach and Methodology

To select the most appropriate approach, we have considered the purpose of the valuation engagement and the resulting basis of value as well as the availability and reliability of information provided to us to perform an analysis. We have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Target. In our opinion, the cost approach is inappropriate for valuing the Target, as it does not directly incorporate information about the economic benefits contributed by the Target. The income approach is not the most optimal approach as it involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained. We have therefore relied on the market approach in determining our opinion of value.

There are two common methods under market approach, namely, guideline public companies method and guideline transaction method. Guideline public companies method requires identifying suitable guideline public companies and selection of appropriate trading multiples, while guideline transaction method takes reference to recent mergers and acquisitions transaction between unrelated parties and ratio of transaction price to Target's financial metrics.

In this exercise, the market value of equity interest in the Target was developed through the guideline public company method. The guideline transaction method is not adopted due to lack of sufficient recent market transactions with similar nature as the Target. The guideline public company method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple. In this valuation, we have considered the following commonly used benchmark multiples:

Benchmark multiple	**Abbreviation**	**Analysis**
Price to earnings	P/E	Not used. P/E is not selected as it does not capture the financial leverage and other related risk feature across the companies.
Price to book	P/B	Not used. P/B multiple is not selected as P/B fail to capture the intangible company-specific competencies and advantages so in general, the equity's book value has little bearing with its fair value.
Price to sales & Enterprise Value to Sales	P/S & EV/S	Not used. P/S & EV/S are not used in the valuation as P/S & EV/S do not take into account a company's profitability.
Enterprise Value to EBITDA	EV/EBITDA	Adopted. EV/EBITDA is suitable for profitable companies and can factor in differences in balance sheet positions between the subject and the comparable companies.

In this valuation, The EV/EBITDA Ratio is defined as the current enterprise value to the earnings before interest, tax, depreciation and amortization of the Target from 1 January 2023 to 31 December 2023. The EV/EBITDA Ratio is a capital structure neutral ratio since it takes into account the debt and earnings before interest expenses. It allows us to compare the Target against the comparable companies without considering how each comparable company finances its operations.

Adjustment of EV/EBITDA Ratios

The comparable companies are often of significantly different size from the target. Larger companies are generally perceived as less risky in relation to business operation and financial performance, and thus the expected returns are lower and resulting in higher multiples. Therefore, the base multiples were adjusted to reflect the difference in size between the comparable companies and the target.

The adjusted EV/EBITDA Ratios were calculated using the following formula:

Adjusted EV/EBITDA Ratio = $1/((1/M) + \alpha * \varepsilon * \theta)$

Where:
M = The Base EV/EBITDA Ratio
α = The scale factor, which converts the base measure of the benefits to an alternative measure of benefits for the comparable companies
ε = The ratio of the equity value to the enterprise value of the comparable company
θ = Required adjustment in the equity discount rate for difference in size

M is the base EV/EBITDA ratio and we take the reciprocal of M to come up with 1/M. The logic behind the pricing multiple adjustments is that the reciprocal of the base multiple represents a capitalization rate. In this valuation, the reciprocal of the base EV/EBITDA multiple represents a capitalization rate of the enterprise value.

For the parameter θ, it was used as a desired adjustment to reflect the difference in natures between the comparable companies and the target. With reference to the 2024 SBBI® Yearbook published by Kroll Inc. (previously Duff & Phelps), size premium differentials of 3.31%-4.09% were adopted to capture how much the market capitalization of each of the comparable companies is larger than the market value of the target.

The ratio of the market capitalization to enterprise value ε was adopted as a weighting factor. As aforesaid, the logic behind this formula is that a pricing multiple is the reciprocal of the capitalization rate. In the case of an enterprise value multiple, the capitalization rate is driven by the weighted average cost of capital ("**WACC**") of the valuation subject. Since the size and country risk premium differentials "θ" are applicable only to the equity portion (for a listed company, market capitalization represents the market value of its equity) but not to the debt portion of the WACC, we only adjust the equity portion of the capitalization rate in this pricing multiple adjustment formula. The ratio ε was used to apply an appropriate weighting on the parameter θ so that the capitalization rate was adjusted only to the extent of its equity portion. In other words, the ratio ε takes into account of the varying capital structures among the comparable companies. Market capitalization and enterprise value of comparable companies are obtained from Bloomberg.

The ratio of EBITDA to net operating profit after tax ("**NOPAT**") was used as a scale factor α, which is applied in the adjustment of the EV/EBITDA multiple. It is considered that the base measure of the benefits for enterprise value to be NOPAT (Hitchner, 2017), which is a financial measure that shows how well a company performed through its core operations net of taxes and it excludes tax savings from existing debt and one-time losses or charges. As EV/EBITDA was adopted as the pricing multiple in this valuation, EBITDA becomes an alternative measure of the benefits for enterprise value in the pricing multiple adjustment formula. Hence, α was used as a scale factor for the alternative measure of benefit. EBITDA and NOPAT of comparable companies are obtained from Bloomberg.

ASSUMPTIONS

In this exercise, we have applied the following assumptions as at the Valuation Date in deriving the market value of the 100 percent equity interest in the Target.

General Assumptions

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target;
- The operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- The facilities and systems proposed are sufficient for future expansion in order to realize the growth potential of the business and maintain a competitive edge; and
- We have assumed that there are no hidden or unexpected conditions associated with the Target that might adversely affect the reported values. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

Market Multiple

Under guideline public company method, which requires identifying suitable guideline public companies and selection of appropriate trading multiples, in determining the financial multiple, a list of comparable companies was identified. The selection criteria, which are based on the business nature and operation status of the Target as discussed in BACKGROUND, include the followings:

- The companies are publicly listed on HKEX, SZSE or SSE;
- The companies have been listed no fewer than six months;
- The companies derive at least 50% of their revenues from the same industry of the Target, i.e. provision of cyber security and software solution in the financial sector;
- The companies derive at least 50% of their revenues from the operation in Mainland China, which is the same as the Target;
- The companies have positive Net Operating Profit After Tax ("**NOPAT**"), which is the same as the Target; and
- Sufficient data, including the EV/EBITDA Multiples as at the Valuation Date of the companies, is available.

The comparable companies satisfying the aforementioned criteria are:

Ticker	Name	% of Revenue from provision of cyber security and software solution in the financial sector[1]	% of Revenue from China[2]	NOPAT[3]	EV/EBITDA ratio before adjustment[3]
300231 CH Equity	Beijing Trust& Far Technology CO., LTD	69%	99%	187.75	17.76
603383 CH Equity	Fujian Apex Software Co., LTD	100%	100%	169.40	40.55
600570 CH Equity	Hundsun Technologies Inc.	97%	96%	1,357.99	35.96
002987 CH Equity	Northking Information Technology Co., Ltd.	93%	100%	313.19	23.22
300377 CH Equity	Shenzhen Ysstech Info-Tech Co., Ltd	97%	100%	82.55	56.31
300674 CH Equity	Yusys Technologies Co., Ltd.	94%	100%	301.11	36.08

Notes:

1. The percentage of revenue is directly extracted from annual reports of the comparable companies or calculated based on revenue segments or operating segments information if direct data is unavailable.

2. The percentage of revenue is directly extracted from annual reports of the comparable companies or calculated based on revenue segments or operating segments information if direct data is unavailable.

3. Retrieved from Bloomberg based on latest data available.

The details of the adjustments of the comparable companies are as follows:

Ticker	Name	Total Adjustment ($\alpha * \varepsilon * \theta$)
300231 CH Equity	Beijing Trust& Far Technology CO., LTD	4.60%
603383 CH Equity	Fujian Apex Software Co., LTD	4.07%
600570 CH Equity	Hundsun Technologies Inc.	4.58%
002987 CH Equity	Northking Information Technology Co., Ltd.	3.73%
300377 CH Equity	Shenzhen Ysstech Info-Tech Co., Ltd	4.46%
300674 CH Equity	Yusys Technologies Co., Ltd.	3.52%

The Adjusted EV/EBITDA Ratios of the comparable companies are shown as follows:

Ticker	Name	Adjusted EV/ EBITDA Ratio
300231 CH Equity	Beijing Trust& Far Technology CO., LTD	9.77
603383 CH Equity	Fujian Apex Software Co., LTD	15.31
600570 CH Equity	Hundsun Technologies Inc.	13.59
002987 CH Equity	Northking Information Technology Co., Ltd.	12.44
300377 CH Equity	Shenzhen Ysstech Info-Tech Co., Ltd	16.03
300674 CH Equity	Yusys Technologies Co., Ltd.	15.88

The average of the EV/EBITDA Ratio is calculated at 13.84 and is adopted as the EV/EBITDA Ratio for the valuation on the market value of the equity interest in the Target.

Discount for Lack of Marketability (DLOM)

A factor to be considered in valuing closely held companies such as the Target is the marketability of an interest in such businesses. Marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists.

For this exercise, the indicated discount for lack of marketability adopted for the equity interest in the Target is 22.10% (Services) as at the Valuation Date, based on a study 2023 edition of the Stout Restricted Stock Study Companion Guide issued by Stout Risius Ross, LLC. The study represents the most widely used and accepted database available to valuators for DLOM determination.

Control Premiums and Discount for Lack of Control (DLOC)

Control Premium and Discount for Lack of Control (DLOC) are applied to reflect differences between the comparables and the subject asset with regard to the ability to make decisions. A Control Premium is defined as the additional consideration that an investor would pay over a marketable minority equity value in order to own a controlling interest in the common stock of a company. The DLOC is the reduction applied to the valuation of a minority equity position in a company due to the absence of control. It is usually calculated as the reciprocal of the control premium. Minority shareholders usually have the inability to dictate the future strategic direction of the company, the election of directors, the nature, quantum and timing of their return on investment, or even the sale of their own shares. This absence of control reduces the value of the minority equity position against the total enterprise value of the company. As the Company intended to acquire 49 percent equity interest in the Target, the market value of the Target should be calculated based on a non-controlling basis. The Control Premium is typically not considered when the calculation is directly based on the consolidated level, which is the most appropriate in such cases. In this report, it is calculated only for illustration purpose for readers to understand the impact of Control Premium.

Based on the Mergerstat Control Premium Study (3rd and 4th Quarter 2023) published by FactSet Mergerstat, LLC., the control premium of 29.85% is adopted in this valuation. The Control Premium Study published by FactSet Mergerstat, LLC. is a widely accepted sources among valuers.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date. We have also taken into account one factor, the DLOM. The calculation of the market value of the 100 percent equity interest in the Target as at the Valuation Date is as follows:

	As at 31 December 2023 *RMB'000*
Trailing 12 months EBITDA of the Target*	23,088
Adjusted EV/EBITDA Ratio	13.84
Enterprise Value of the Target	**319,539**
Add: Cash and Cash Equivalents**	16,493
Less: Preferred Equity**	–
Less: Minority Interest**	–
Less: Debt and Lease Liabilities**	(2,200)
100 Percent Equity Interest in Target (marketable, non-controlling)	**333,833**
Less: Discount for Lack of Marketability (22.10%)	(73,777)
100 Percent Equity Interest in Target (non-marketable, non-controlling)	**260,056**
Add: Control Premium (29.85%)	77,627
100 Percent Equity Interest in Target (non-marketable, controlling)	**337,682**
Less: Discount for Lack of Control	(77,627)
100 Percent Equity Interest in Target (non-marketable, non-controlling)	**260,056**
Market Value of 100 percent Equity Interest in Target (Rounded)	**260,056*****

Note: * The trailing 12 months EBITDA of the Target were based on the audited financial figures for the years ended 31 December 2023 from the auditor. The trailing 12 months EBITDA of the Target is calculated as follow:

	2023
	Audited
	(RMB'000)
Revenue	43,751
+ Other income	302
– Cost of sales	-12,959
– Selling expenses	-1,577
– Administrative expenses	-5,503
– Other operating expenses	-3,958
EBIT	**20,056**
+ D&A	3,032
EBITDA	**23,088**

** The figures of Cash and Cash Equivalents, Preferred Equity, Minority Interest, Debt and Lease Liabilities were all extracted from the audited financial figures for the years ended 31 December 2023 from the auditor.

*** As the Company intended to acquire 49 percent equity interest in the Target, the market value is on a non-controlling basis.

VALUATION COMMENTS

The valuation of the market value of equity interest in the Target requires consideration of all relevant factors affecting the operation of the business related to the Target and its ability to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

– The nature of the business;

– The financial condition of the business and the economic outlook in general; and

– The financial and business risk of the enterprise including the continuity of income and the projected future results.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. In particular, details about the assumptions can be found under the heading "Assumptions" in this Report. Further, while the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

OPINION OF VALUE

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the market value of 100 percent equity interest in the Target as at the Valuation Date is reasonably stated as follows:

Shanghai Zhangyu	Market Value (RMB'000)
100 percent equity interest	260,056

LIMITING CONDITIONS

This report and opinion of value are subject to our Limiting Conditions as attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Simon M.K. Chan
Executive Director

Note: Mr. Simon M.K. Chan is a fellow (FCPA) of the Hong Kong Institute of Certified Public Accountants (HKICPA) and CPA Australia. He is also fellow of the Royal Institution of Chartered Surveyors (FRICS). He is an International Certified Valuation Specialist (ICVS) and a Chartered Valuer and Appraiser (Singapore). He oversees the business valuation services of JLL and has over 20 years of accounting, auditing, corporate advisory and valuation experiences. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States.

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the Company's/engagement parties' analysis in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the subject property rests solely with the Company/engagement parties.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The management and the Board of the Company/engagement parties have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of engagement letter/proposal and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation/Reference Date. We cannot provide assurance on the achievability of the results forecasted by the Company/

engagement parties (if any) because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results (if any) is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any their party without our prior written consent. Even with our prior written consent for such, we are not liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the client and the calculation of values expressed herein is valid only for the purpose stated in the engagement letter/or proposal as of the Valuation/Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.

15. This exercise is premised in part on the historical financial information and future forecast (if any) provided by the management of the Company/engagement parties and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

16. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/engagement parties and other sources. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

17. The management or staff of the Company/engagement parties and/or its representatives have confirmed to us that the transaction or themselves or the parties involved in the pertained assets or transaction are independent to our firm and Jones Lang LaSalle Corporate Appraisal and Advisory Limited in this valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independency in our work, the Company/engagement parties and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

VALUERS' PROFESSIONAL DECLARATION

The following valuers certify, to the best of their knowledge and belief, that:

– Information has been obtained from sources that are believed to be reliable. All facts which have a bearing on the value concluded have been considered by the valuers and no important facts have been intentionally disregarded.

– The reported analyses, opinions, and conclusions are subject to the assumptions as stated in the report and based on the valuers' personal, unbiased professional analyses, opinions, and conclusions. The valuation exercise is also bounded by the limiting conditions.

– The reported analyses, opinions, and conclusions are independent and objective.

– The valuers have no present or prospective interest in the asset that is the subject of this report, and have no personal interest or bias with respect to the parties involved.

– The valuers' compensation is not contingent upon the quantum of the value assessed, the attainment of a stipulated result, the occurrence of a subsequent event, or the reporting of a predetermined value or direction in value that favours the cause of the client.

– The analyses, opinions, and conclusions were developed, and this report has been prepared, in accordance with the International Valuation Standards published by the International Valuation Standards Council.

– The under mentioned persons provided professional assistance in the compilation of this report.

Simon M.K. Chan
Executive Director

Hunter Z.W. He
Senior Director

Kevin H.K.Yang
Senior Analyst

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive was taken or deemed to have under such provisions 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 for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange were as follows:

Long positions in the Shares and underlying shares of the Company:

Name of Director	Capacity and nature of interests	Number of Shares	Approximate percentage of the Company's issued share capital
Mr. Cui Wei *Note 1*	Interest in controlled corporation	108,868,662	23.38%
Ms. Zhang Zhong *Note 2*	Interest in controlled corporation	15,894,525	3.41%
Mr. Du Xiping	Beneficial owner	11,468,000	2.46%

Notes:

1. Mr. Cui Wei, the Chairman and non-executive Director of the Company, beneficially owns the entire share capital of Kingever Enterprises Limited ("**Kingever**") and accordingly is deemed to be interested in the Shares as held by Kingever by virtue of the SFO.

2. Ms. Zhang Zhong, the non-executive Director of the Company, beneficially owns the entire share capital of Wellahead Holdings Limited ("**Wellahead**") and accordingly is deemed to be interested in the Shares as held by Wellahead by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the chief executive of the Company nor their associates, had any other interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or chief executive of the Company is taken or deemed to have under such provisions of the SFO); or which (b) were required to be entered into the register maintained by the Company, pursuant to Section 352 of the SFO; or which (c) were required to be notified to the Company or the Stock Exchange, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies contained in the Listing Rules.

(b) Substantial Shareholders and persons having 5% or more shareholding

As at the Latest Practicable Date, the register of substantial shareholders maintained under Section 336 of the SFO shown that the Company had been notified of the following interests, being 5% or more of the Company's issued share capital. These interests were in addition to those disclosed above in respect of the Directors and the chief executive of the Company.

Long positions in the Company:

Name of substantial shareholders	Capacity and nature of interests	Number of Shares	Approximate percentage of the Company's issued share capital
Kingever *(Note)*	Beneficial owner	108,868,662	23.38%
Mr. Cui Wei *(Note)*	Deemed interest and interest in controlled corporation	108,868,662	23.38%

Note: Kingever is a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Cui Wei.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executive of the Company were not aware of any person (other than a Director or chief executive of the Company) who had any other interests or short positions in the Shares or underlying Shares and debentures of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing service contract or proposed service contract with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date:

(a) none of the Directors was materially interested, directly or indirectly, in any contract or arrangement subsisting which was significant in relation to the business of the Enlarged Group; and

(b) none of the Directors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2023, being the date to which the latest published audited consolidated financial statements of the Enlarged Group were made up.

5. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

6. EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Name	Qualification
CL Partners CPA Limited	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent Valuer
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of the above experts did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the above experts did not have, directly or indirectly, any interest in any assets which had since 31 December 2023 (being the date to which the latest published consolidated audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

7. DOCUMENTS ON DISPLAY

Electronic copies of the following documents are available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.hengxin.com.sg) for a period of 14 days from the date of this circular:

(a) the Equity Purchase Agreement;

(b) the material contracts referred to in the paragraph headed "9. Material Contracts" below in this appendix;

(c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out from pages 23 to 24 of this circular;

(d) the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out from pages 25 to 40 of this circular;

(e) the written consents from the experts referred to in the paragraph headed "6. Expert" above in this appendix; and

(f) this circular.

8. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors were aware, no litigation, arbitration or claim of material importance was pending or threatened against any member of the Enlarged Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business of the Enlarged Group) had been entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- the loan extension agreement dated 7 March 2024 entered into between Xin Ke Xin (as lender) and Nanjing Zhangyu (as borrower) in relation to the extension of the loan in the principal amount of RMB40 million granted by Xin Ke Xin to Nanjing Zhangyu;

- the loan extension agreement dated 7 March 2024 entered into between Xin Ke Xin (as lender) and Nanjing Zhangyu (as borrower) in relation to the extension of the loan in the principal amount of RMB210 million granted by Xin Ke Xin to Nanjing Zhangyu;

- a conditional equity transfer agreement entered into between the Longkong Zhongguang and Gongqing City on 31 May 2023, pursuant to which the Longkong Zhongguang has conditionally agreed to acquire and Gongqing City has conditionally agreed to sell approximately 4.45% equity interest of Zhejiang Zhongguang at the consideration of approximately RMB63.6 million;

- a conditional equity transfer agreement entered into between the Longkong Zhongguang and Hangzhou Jingneng on 31 May 2023, pursuant to which the Longkong Zhongguang has conditionally agreed to acquire, and Hangzhou Jingneng has conditionally agreed to sell approximately 2.09% equity interest of Zhejiang Zhongguang at the consideration of approximately RMB29.9 million;

- a loan agreement entered into between Xin Ke Xin and Nanjing Zhangyu on 31 May 2023, pursuant to which Xin Ke Xin agreed to provide a loan to Nanjing Zhangyu in the principal amount of RMB210 million for a term of one year commencing from the date of the drawdown of the aforesaid loan;

- a loan agreement entered into between Xin Ke Xin and Nanjing Zhangyu on 28 April 2023, pursuant to which Xin Ke Xin agreed to provide a loan to Nanjing Zhangyu in the principal amount of RMB40 million for a term of one year commencing from the date of the agreement;

- a partnership agreement and its supplemental agreement entered into between Nanjing Zhangyu as the general partner and Cosin Solar as the limited partner on 21 April 2023, pursuant to which the formation of partnership named Hangzhou Longkong Zhongguang Enterprise Holding Enterprise Partnership (Limited Partnership)* (杭州龍控中光企業控股合夥企業(有限合夥)) by way of capital contribution; and

- a corporate guarantee provided by Zhongguang New Energy on 14 December 2022 in favour of Bank of China Limited (Haixi Branch)* (中國銀行海西支行), for a credit facility of up to RMB50 million provided by Bank of China Limited (Haixi Branch)* (中國銀行海西支行) as lender to Qinghai Zhongkong as borrower.

10. MISCELLANEOUS

Mr. Chua Kern (who is a practicing solicitor in Singapore and a member of each of The Law Society of Singapore and Singapore Academy of Law) and Mr. Chan Ting (who is qualified to practise as solicitor in Hong Kong) are the joint company secretaries of the Company.

The registered office of the Company is at 5 Tampines Central 1, #06-05 Tampines Plaza 2, Singapore 529541. The principal share registrar and transfer agent of the Company in Singapore is Boardroom Corporate & Advisory Services Pte. Ltd., at 1 Harbourfront Avenue, Keppel Bay Tower #14-07, Singapore 098632. The branch share registrar and transfer office of the Company in Hong

Kong is Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong. The head office and principal place of business of the Company in Singapore is 5 Tampines Central 1, #06-05 Tampines Plaza 2, Singapore 529541.

The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text in the event of inconsistency.

HENGXIN TECHNOLOGY LTD.
亨鑫科技有限公司*

(carrying on business in Hong Kong as HX Singapore Ltd.)
(incorporated in Republic of Singapore with limited liability)
(Stock Code: 1085)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**Meeting**") of Hengxin Technology Ltd. (the "**Company**") will be held on 10 July 2024 (Wednesday) at 11:00 a.m. at Unit 08, 43/F, Far East Finance Centre, 16 Harcourt Road, Admiralty, Hong Kong. The Meeting will be convened for the purposes of considering and, if thought fit, passing (with or without modifications) the following resolution as ordinary resolution:

Unless the context requires otherwise, capitalised terms used herein shall have the same meaning as those defined in the circular of the Company dated 25 June 2024.

ORDINARY RESOLUTION

"To (i) approve, confirm and ratify the Equity Purchase Agreement dated 20 May 2024 entered into between Xin Ke Xin, an indirect wholly-owned subsidiary of the Company, as purchaser, Xuzhou Jinkan and Mr. Bai Yuanliao, as vendors, and the Target Companies, (a copy of which has been produced at the Meeting and marked "A", and initialed by the chairman of the Meeting for identification purpose) and the transactions contemplated thereunder; and (ii) approve, ratify and confirm the authorisation to any one director of the Company on behalf of the Company, among other things, to sign, seal, execute and deliver all such documents as he/she may consider necessary, desirable or expedient for the purpose of or in connection with or to give effect to the Equity Purchase Agreement and the transactions contemplated thereby, and to waive compliance from or agree and make such amendments of non-material nature to the terms of any of the Equity Purchase Agreement that he/she may in his/her discretion consider to be desirable and in the interests of the Company and its shareholders as a whole."

By Order of the Board
Hengxin Technology Ltd.
Cui Wei
Chairman

Singapore, 25 June 2024

Notes:

1. A member of the Company (the "**Member**") entitled to attend and vote at the Meeting is entitled to appoint no more than two (2) proxies to attend and vote in his/her stead. A proxy need not be a Member. Where a Member appoints more than one (1) proxy, the Member shall specify the proportion of his/her shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.

2. The instrument appointing a proxy, and if the instrument appointing a proxy is signed by an attorney, the letter or power of attorney or a duly certified copy thereof, must be deposited at the Company's Principal Share Registrar in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd., at 1 Harbourfront Avenue, Keppel Bay Tower #14-07, Singapore 098632 (for Shareholders registered in Singapore), or at the office of the Company's Branch Share Registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong (for Shareholders registered in Hong Kong), as soon as possible and in any event not later than forty-eight (48) hours before the time appointed for holding the Meeting (or at any adjournment thereof).

3. If the Member is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

4. Completion and return of the proxy form will not preclude a Member from attending and voting in person at the Meeting or any adjournment thereof should he/she so wish, and in such event, the proxy form shall be deemed to be revoked.

5. The Principal Share Registrar and Branch Share Registrar of the Company will be closed from 9 July 2024 (Tuesday) to 10 July 2024 (Wednesday) (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending the Meeting, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Principal Share Registrar in Singapore, Boardroom Corporate & Advisory Services Pte. Ltd., at 1 Harbourfront Avenue, Keppel Bay Tower #14-07, Singapore 098632 (for Shareholders registered in Singapore), or at the office of the Company's Branch Share Registrar in Hong Kong, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong (for Shareholders registered in Hong Kong) not later than 4:30 p.m. on 8 July 2024 (Monday). Any removal of Shares from the Company's Principal Share Registrar in Singapore to the Branch Share Registrar in Hong Kong for the purpose of attending the EGM shall be made not later than 4:30 p.m. on 2 July 2024 (Tuesday).

* *For identification purpose only.*