LUYUAN
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# 綠源集團控股（開曼）有限公司*

# Luyuan Group Holding (Cayman) Limited

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2451


# ANNUAL REPORT 2023

*For identification purposes only

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# CORPORATE PROFILE

Luyuan Group Holding (Cayman) Limited (the "**Company**", together with its subsidiaries, the "**Group**") is a leading electric two-wheeled vehicle provider in mainland China focusing on the design, research and development, manufacturing and selling of electric two-wheeled vehicles.

The "Luyuan" brand has a history of nearly 27 years and has established a prominent presence in the highly competitive and concentrated electric two-wheeled vehicle market. Under the marketing tagline "Luyuan Liquid-cooled Electric Vehicles, A Ten-Year Ride" (綠源液冷電動車,一部車騎十年), showcasing the quality, durability and technological advantages of its liquid-cooled electric vehicles and other popular products.

The Group attaches great importance to technological advancements in the electric two-wheeled vehicle industry. The Company possessed approximately 500 patents as of December 31, 2023.

The Group operates three production plants located in Zhejiang, Shangdong and Guangxi. As of December 31, 2023, the annual production capacity of electric two-wheeled vehicles of the Group exceeded 4 million units. The Group further commenced the construction of a new production facility in Chongqing City as of the date of this annual report, the production capacity of which is expected to be incrementally elevated up to 2 million units annually by 2026.

The Group has built an extensive offline sales and distribution network and embraced informatization and established online retail channels, continuously improving the penetration and coverage of its products. As of December 31, 2023, the Group had over 1,400 distributors covering 324 cities across 30 provincial-level administrative regions and a total of approximately 13,000 retail outlets.

On October 12, 2023, the Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 2451).

# CORPORATE INFORMATION

| | |
|---|---|
| **Registered Office** | P.O. Box 309, Ugland House<br>Grand Cayman, KY1-1104<br>Cayman Islands |
| **Headquarters** | No. 168 Shicheng Street<br>Development Zone<br>Jinhua City<br>Zhejiang Province<br>China |
| **Principal Place of Business in Hong Kong** | 31/F., Tower Two<br>Times Square, 1 Matheson Street<br>Causeway Bay<br>Hong Kong |
| **Company's Website** | www.luyuan.cn |
| **Stock Code** | 2451 |
| **Board of Directors** | |
| Executive directors | Mr. Ni Jie *(Chairman)*<br>Ms. Hu Jihong<br>Mr. Chen Guosheng |
| Non-executive director | Mr. David Ross Dingman (alias Mr. David R. Dingman) *(resigned on March 18, 2024)* |
| Independent non-executive directors | Mr. Wu Xiaoya<br>Mr. Peng Haitao<br>Mr. Liu Bobin<br>Mr. Chan Chi Fung Leo |
| **Joint Company Secretaries** | Ms. Chu Cheuk Ting *(ACG, HKACG)*<br>Mr. Chen Guosheng |
| **Authorized Representatives** | Mr. Ni Jie<br>Ms. Chu Cheuk Ting *(ACG, HKACG)* |
| **Audit Committee** | Mr. Wu Xiaoya *(Chairman)*<br>Mr. Liu Bobin<br>Mr. Peng Haitao |
| **Remuneration Committee** | Mr. Liu Bobin *(Chairman)*<br>Ms. Hu Jihong<br>Mr. Wu Xiaoya |

## CORPORATE INFORMATION

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|---|---|
| **Nomination Committee** | Mr. Liu Bobin *(Chairman)*<br>Ms. Hu Jihong<br>Mr. Wu Xiaoya |
| **Strategic and Investment Committee** | Mr. Ni Jie *(Chairman)*<br>Ms. Hu Jihong<br>Mr. Peng Haitao |
| **Hong Kong Legal Adviser** | Han Kun Law Offices LLP<br>Rooms 3901–05<br>39/F., Edinburgh Tower<br>The Landmark<br>15 Queen's Road Central<br>Hong Kong |
| **Auditor** | PricewaterhouseCoopers<br>*Certified Public Accountants and*<br>*Registered Public Interest Entity Auditor*<br>22/F, Prince's Building, Central<br>Hong Kong SAR, China |
| **Compliance Adviser** | Jun Hui International Finance Limited<br>Unit 01–02, 16/F<br>Hing Yip Commercial Centre<br>272–284 Des Voeux Road Central<br>Sheung Wan, Hong Kong |
| **The Cayman Islands Principal Share Registrar and Transfer Office** | Maples Fund Services (Cayman) Limited<br>PO Box 1093, Boundary Hall<br>Cricket Square<br>Grand Cayman KY1-1102<br>Cayman Islands |
| **Hong Kong Share Registrar** | Tricor Investor Services Limited<br>17/F, Far East Finance Centre<br>16 Harcourt Road<br>Hong Kong |
| **Principal Bank** | Agricultural Bank of China Limited<br>Jinhua Economic<br>Development Zone Branch<br>No. 216, Bayi South Street<br>Jinhua City<br>Zhejiang Province, China |

# DEFINITIONS

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|---|---|
| "AGM" | the annual general meeting of the Company to be held on June 26, 2024; |
| "Apex Marine" | Apex Marine Investments Limited, a company incorporated in the British Virgin Islands with limited liability on March 9, 2010 and wholly-owned by Ms. Hu; |
| "Articles of Association" | the articles of association of the Company, as amended from time to time; |
| "Audit Committee" | the audit committee of the Company; |
| "Auditor" | the auditor of the Company; |
| "Best Expand" | Best Expand Holdings Limited, a company incorporated in the British Virgin Islands with limited liability on March 16, 2010 and owned by Mr. Ni and Ms. Hu in equal shares; |
| "Board" or "Board of Directors" | the board of Directors; |
| "Capitalization Issue" | the issue of 288,000,000 Shares made upon capitalization of certain sums standing to the credit of the share premium account of the Company as referred to in the sub-section headed "A. Further Information about our Group — 4. Resolutions in Writing of the Shareholders of Our Company Passed On August 21, 2023" in Appendix IV to the Prospectus; |
| "Companies Act" | the Companies Act, Cap. 22 (Law 3 of 1961) of the Cayman Islands (As Revised), as amended, supplemented or otherwise modified from time to time; |
| "CG Code" | the Corporate Governance Code set out in Appendix C1 to the Listing Rules; |
| "Chongqing Luyuan" | Chongqing Luyuan Electric Vehicle Co., Ltd. (重慶綠源電動車有限公司), a company established in the PRC with limited liability on October 25, 2023, an indirectly wholly-owned subsidiary of the Company; |
| "Chongqing Plant" | the production facility of the Group located in Wangu Town, Dazu Gaoxin District, Chongqing City, the PRC; |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time; |
| "Company" or "the Company" | Luyuan Group Holding (Cayman) Limited (綠源集團控股(開曼)有限公司*), an exempted company incorporated in the Cayman Islands with limited liability on February 18, 2009; |
| "Director(s)" | the director(s) of the Company; |

## DEFINITIONS

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|---|---|
| "Drago Investments" | Drago Investments Limited, a company incorporated in the British Virgin Islands with limited liability on January 28, 2010 and wholly-owned by Mr. Ni; |
| "Global Offering" | the Hong Kong public offering and the international offering of the Shares; |
| "Group" | the Company and its subsidiaries from time to time, or, where the context so requires, in respect of the period before the Company became the holding company of our present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time or the business operated by such subsidiaries or their predecessors (as the case may be); |
| "HKD", "HK$" or "Hong Kong Dollars" | Hong Kong dollars and cents, the lawful currency of Hong Kong; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC; |
| "Independent third party(ies)" | person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, is/are not connected persons of the Company; |
| "Latest Practicable Date" | April 15, 2024, being the latest practicable date prior to the publication of this annual report; |
| "Listing" | the listing of the Shares on the Main Board of the Stock Exchange on October 12, 2023; |
| "Listing Date" | the date, being October 12, 2023, on which the Shares were listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange; |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time; |
| "Main Board" | the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange; |
| "mainland China" | the People's Republic of China excluding Hong Kong, the Macau Special Administrative Region and Taiwan region; |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules; |

## DEFINITIONS

| | |
|---|---|
| "Mr. Ni" | Mr. Ni Jie (倪捷), the co-founder of the Group, executive Director, controlling Shareholder of the Company and spouse of Ms. Hu; |
| "Ms. Hu" | Ms. Hu Jihong (胡繼紅), the co-founder of the Group, executive Director, controlling Shareholder of the Company and spouse of Mr. Ni; |
| "Net Proceeds" | the net proceeds from the Global Offering which amounted to approximately HKD706.4 million after deduction of the underwriting fees and commissions and other estimated expenses paid and payable by the Company in relation to the Global Offering; |
| "PRC" or "China" | the People's Republic of China, and "Chinese" shall be construed accordingly; |
| "Pre-IPO Share Scheme" | the share scheme adopted by the Company pursuant to the written resolutions passed by the Board on July 20, 2023, the principal terms of which are set out in "Statutory and General Information — D. Share Incentive Schemes — 1. Pre-IPO Share Scheme" in Appendix IV to the Prospectus; |
| "Post-IPO Share Scheme" | the share scheme adopted by the Company pursuant to the written resolutions passed by our Shareholders on August 21, 2023, the principal terms of which are set out in "Statutory and General Information — D. Share Incentive Schemes — 2. Post-IPO Share Scheme" in Appendix IV to the Prospectus; |
| "Prospectus" | the prospectus of the Company dated September 28, 2023; |
| "Reporting Period" | the year ended December 31, 2023; |
| "RMB" | the lawful currency of the PRC; |
| "SFC" | the Securities and Futures Commission of Hong Kong; |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented or otherwise modified from time to time; |
| "Share(s)" | ordinary share(s) in the capital of the Company with a par value of US$0.0001 each; |
| "Shareholder(s)" | holder(s) of Share(s); |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |

## DEFINITIONS

| | |
|---|---|
| "U.S." or "United States" | the United States of America, its territories, its possessions and all areas subject to its jurisdiction; |
| "USD" or "US$" | United States dollars, the lawful currency for the time being of the United States; |
| "Zhejiang Luyuan" | Zhejiang Luyuan Electric Vehicle Co., Ltd. (浙江綠源電動車有限公司), a company established in the PRC with limited liability on May 12, 2003, a wholly-owned subsidiary of the Company; |
| "%" | per cent. |

* *for identification purpose only.*

*In this annual report, the terms "associate", "close associate", "connected person", "connected transaction", "continuing connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.*

# FOUR-YEAR FINANCIAL SUMMARY

## CONDENSED CONSOLIDATED INCOME STATEMENTS

| | 2023<br>RMB'000 | 2022<br>RMB'000 | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|---|---|
| Revenue | **5,082,982** | 4,783,023 | 3,417,687 | 2,378,332 |
| Profit before income tax | **151,140** | 122,248 | 61,591 | 43,317 |
| Profit for the year | **145,607** | 118,030 | 59,260 | 40,281 |
| Total comprehensive income for the year | **141,022** | 119,734 | 58,404 | 39,629 |

## CONDENSED CONSOLIDATED BALANCE SHEETS

| | 2023<br>RMB'000 | 2022<br>RMB'000 | 2021<br>RMB'000 | 2020<br>RMB'000 |
|---|---|---|---|---|
| ***Assets*** | | | | |
| Non-current assets | **1,231,795** | 1,086,035 | 960,266 | 598,980 |
| Current assets | **2,630,686** | 2,097,965 | 1,705,627 | 969,268 |
| Total assets | **3,862,481** | 3,184,000 | 2,665,893 | 1,568,248 |
| ***Equity and liabilities*** | | | | |
| Capital and reserve attributable to equity holders of the Company | **1,527,565** | 679,838 | 560,104 | 501,700 |
| Total equity | **1,527,565** | 679,838 | 560,104 | 501,700 |
| Non-current liabilities | **505,833** | 389,024 | 165,940 | 15,875 |
| Current liabilities | **1,829,083** | 2,115,138 | 1,939,849 | 1,050,673 |
| Total liabilities | **2,334,916** | 2,504,162 | 2,105,789 | 1,066,548 |
| Total equity and liabilities | **3,862,481** | 3,184,000 | 2,665,893 | 1,568,248 |

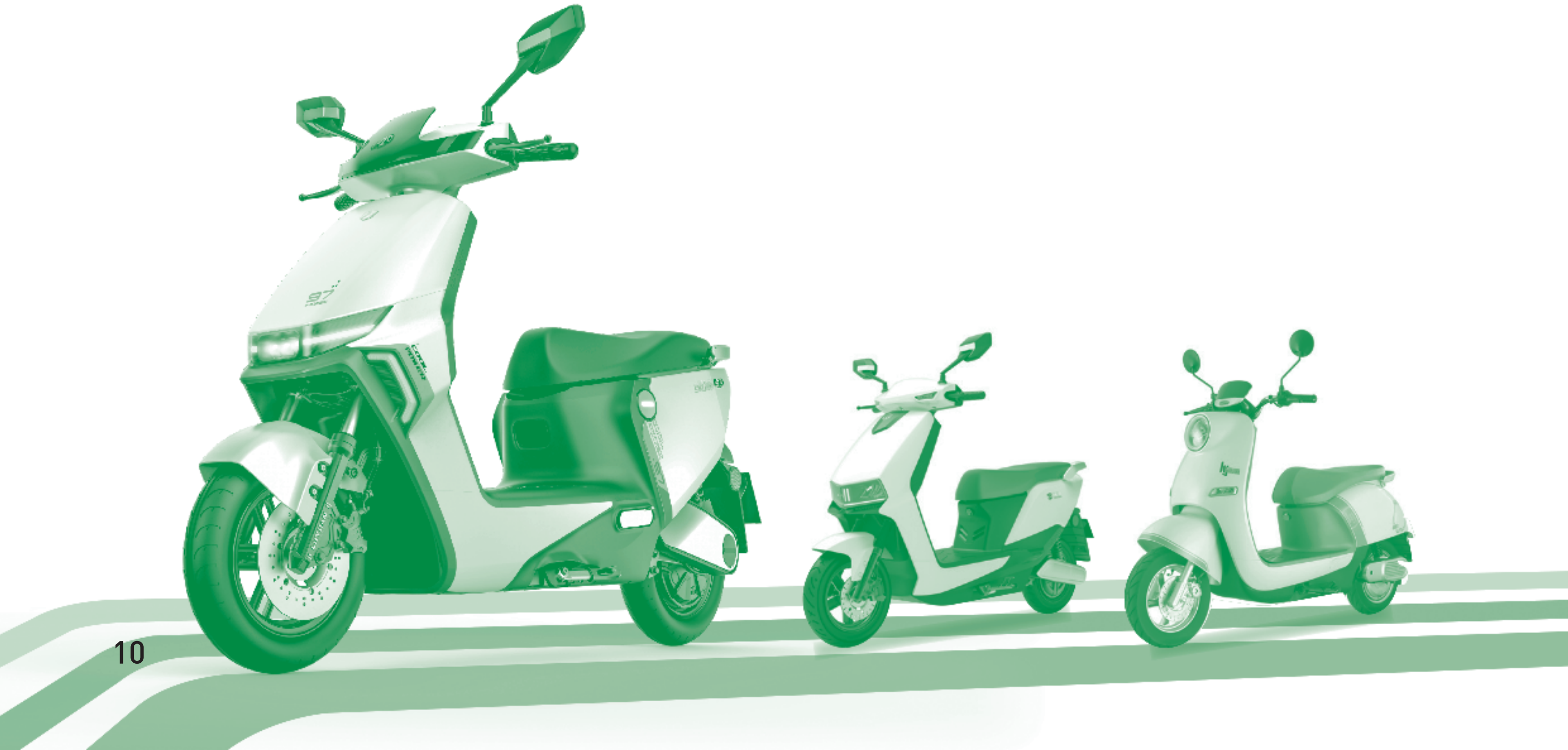
# CHAIRMAN'S STATEMENT

**Dear Shareholders,**

On behalf of the Board of Directors, I am pleased to present to you the Group's first annual report since the Listing on the Main Board of the Stock Exchange on October 12, 2023.

The Group would like to take this opportunity to express its sincere gratitude to everyone who has enabled the Group to reach this important milestone. Such success is of great significance to the Group at multiple levels, since it has enabled the Group to enter the international capital market, consolidated the corporate governance structure of the Group, enhanced the image of the Company, and further reinforced the Group's position as the leader in the PRC's electric two-wheeled vehicle industry. The Net Proceeds are conducive to accelerating the construction of the Group's production capacity, expansion of the Group's sales and distribution channels, and upgrading of the Group's technical capabilities, thereby creating a solid foundation for the Group to overcome various challenges and providing a strong boost to the long-term development of the Group.

Luyuan, the earliest founding brand of electric two-wheeled vehicles in the PRC, was founded in 1997, and has been focusing on the research and development, design, production, and sales of electric two-wheeled vehicles for 27 years. The Group is also a key player in the formulation of national standards for electric two-wheeled vehicles in 1999 and 2018 and a multiple winner of the Science and Technology Progress Award of the Light Industry Federation. As Luyuan develops, it has not only witnessed the history of the industry, but also promoted the development of the industry with its own contributions.



## BUSINESS REVIEW

Building on its previous results, the Group once again recorded a steady growth in both financial and operating performance in the year 2023. Revenue of the Group increased from RMB4,783.0 million in 2022 to RMB5,083.0 million in 2023, representing an increase of approximately 6.3%. Profit for the year increased from RMB118.0 million in 2022 to RMB145.6 million in 2023, representing an increase of approximately 23.4%.

Benefiting from the further expansion of the number of distributors and retail outlets, effective release of manufacturing capacity and improvement in product competitiveness as a result of the Group's successful application of core technologies, the overall operation of the Group continued to improve in 2023. Brand advertising and marketing also further uplifted the sales volume of the high-end model products of the Group. As a result, the Group also recorded double-digit growth in gross profit from RMB561.3 million in 2022 to RMB681.2 million in 2023, representing an increase of approximately 21.4%. With upgraded manufacturing system and expanded intelligent construction, the production efficiency of the Group was further enhanced. As a result, manufacturing costs of the Group decreased and increasing economies of scale were achieved, thereby contributing to the Group's profit growth for the year.

Looking back on the year 2023, the Group has been committed in positioning itself at the forefront of technological advancements in the electric two-wheeled vehicle industry. Through continuous investment in research and development and application of the results derived from such research and development for new products, the Company has maintained its leading position in the industry with technical edge. In 2023, the Group launched the second-generation electric vehicles represented by the S series, which were equipped with the Group's proprietary 2.0 liquid-cooled motors and upgraded solid-state power controllers among other brand-new self-developed electronic control systems. Such innovations have not only elevated the performance and reliability of the Group's products but also significantly reduced the failure rates of electrical components. This progress underscores the Group's commitment to establishing electric two-wheeled vehicles as durable consumer goods. In terms of intellectualization, selected vehicle models represented by the S series are equipped with the self-developed PCDS (private customized design system) technology, which enables personalized vehicle settings for an improved intelligent riding experience, and a digital battery maintenance system. In particular, the innovative breakthroughs in the digital battery maintenance technology will not only greatly improve battery safety and extend battery life, but also ensure consistent battery capacity output even in the cold northern climates, guaranteeing consistent performance and range without diminishment.

## OUTLOOK

The Group will continue to practice user-centered and market-oriented principles, continuously increase the investment in research and development, and maintain the technological leading position of the Group in the industry. Meanwhile, the Group will also continue to enhance product competitiveness, strengthen supply chain capabilities, further foster brand awareness, upgrade and expand the sales and distribution network of the Group and embrace the development opportunities in the international market.

With a view to responding to market development and the needs of the southwest region of the PRC and realizing the long-term development plan of the Group, the Group will continue the construction of a new production facility in Chongqing City, the PRC in 2024 to effectively utilize the supply chain and supporting resources in the region to meet market demand more efficiently.

As a new beginning, with an aim of leading the development of the electric two-wheeled vehicle industry in the PRC, the Group will take the Listing as an opportunity to further expand the production capacity and domestic and foreign market share, strengthen research and development capabilities in order to consolidate and continuously improve product competitiveness and enhance the technological leading position of the Group, and strive to bring long-term sustainable returns to investors.

On behalf of the Board of Directors, I would like to express my sincere gratitude to our employees, customers, suppliers, shareholders, and business partners, who have shown their strong support to Luyuan throughout the years, for your support and trust. We look forward to working together for a better future.

**Mr. Ni Jie**
*Chairman*

March 28, 2024

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In 2023, the two-wheeled electric vehicle industry navigated through a year of changes driven by technological innovation and changing customer preferences. Over the past two years, the Group responded by introducing a sports line under its S Series, meeting demands for speed, mecha, and minimalist styles, and a fashion line under its Moda series, catering to consumer preferences for classic retro, modern, and cute and sweet styles. Despite the industry's intensified competition, the Group achieved remarkable financial and operational performance in 2023 owing to the Group's enhanced product competitiveness through successful application of core technologies, deep insight into consumer preferences, expansion of distribution network as well as improvements in manufacturing capacity and efficiency. The Group's revenue increased by approximately 6.3% from RMB4,783.0 million in 2022 to RMB5,083.0 million in 2023, primarily driven by the significant growth in its sales volume. The Group also recorded double-digit growth in gross profit by approximately 21.4% from RMB561.3 million in 2022 to RMB681.2 million in 2023, mainly attributable to the Group's effective branding and marketing strategies which uplifted sales of high-end product models as well as increasing economies of scale. The listing on the Stock Exchange of the Company also marked a new phase in its development.

Throughout the Reporting Period, the Group leveraged a variety of marketing vehicles across traditional and new media channels to enhance visibility and recognition of its "Luyuan" brand. A case in point would be the Group's engagement with the national table tennis team as its spokespersons in March 2023, around which the Group has launched and will continue to create and launch various marketing campaigns. In addition, the Group continued to strengthen its foothold in the PRC market by further expanding its extensive distribution network. As of December 31, 2023, the Group's offline distribution network had covered 324 cities in 30 provincial-level administrative regions across mainland China.

The Group remains committed in positioning itself at the forefront of technological advancements in the electric two-wheeled vehicle industry. As of December 31, 2023, the Company had approximately 500 patents, leading the industry in invention patents. In response to evolving customer preferences and increasing market competition, the Group promptly introduced a range of high-performance and cost-effective product offerings that collectively contributed to its financial success during the year. In particular, the year 2023 marked the debut of the Group's second generation electric two-wheeled vehicles, represented by the S Series, which features the Group's proprietary 2.0 liquid-cooled motor and upgraded solid-state controller among other electronic control systems. Such innovations have not only elevated the performance and reliability of the Group's products but also significantly reduced the failure rates of electrical components. This progress underscores the Group's commitment to establishing electric two-wheeled vehicles as durable consumer goods. In terms of intellectualization, selected vehicle models represented by the S Series are equipped with the Group's self-developed PCDS (private customized design system) technology, which enables personalized vehicle settings for an improved intelligent riding experience, and a digital battery maintenance system. The digital battery maintenance system does not only represent the Group's latest breakthrough in digital battery maintenance technology which will greatly improve battery safety and extend battery life, but also ensures consistent battery capacity output even in the cold northern climates, guaranteeing consistent performance and range without diminishment. Following its double cabin highspeed motor winning the first prize in the Science and Technology Progress Award in March 2022, the Group's liquid-cooled integrated motor also won the first prize in the Science and Technology Invention Award in March 2023.

Striving to affirm its place at the forefront of PRC's electric two-wheeled vehicles industry, the Group is committed to expanding its production capabilities to address growing demands for its products. In particular, the Group has planned to strategically construct a new production facility, the Chongqing Plant, in Chongqing City, a city recognized for its mature supply chains and supporting resources. As disclosed in the announcement of the Company dated March 1, 2024, the Company has acquired state-owned construction land use rights for a parcel of land in Dazu District, Chongqing City, PRC for this purpose. As of the date of this annual report, construction of the Chongqing Plant has commenced. Furthermore, the Group has also progressively elevated the informatization level and production efficiency of its other production facilities, including the Shandong Plant and Guangxi Plant, through deploying more new and advanced production machinery and equipment.

## OUTLOOK

The "Luyuan" brand of the Group has a prominent presence in the highly competitive and concentrated electric two-wheeled vehicle market for a history of nearly 27 years. Looking forward, the Group will remain committed to further strengthening its core competencies and capabilities, and will continue to implement the following growth strategies:

— *Enhancing the Group's research and development capabilities.* In terms of foundational research and development, the Group is dedicated to advancing its liquid cooling technology and enhancing its capabilities in innovative technologies such as digital battery maintenance, aiming to further improve the performance and reliability of its products. In terms of product development, the Group will focus on leveraging its core technologies to expand its product offerings, including but not limited to high-speed electric motorcycles, leisure electric tricycles, foldable vehicles and models designed specifically for deliverymen. Additionally, the Group is also actively building its technical reserves for battery swapping, preparing for future advancements in this area.

— *Enhancing production capacity.* The Group will continue the construction of the Chongqing Plant in 2024. The Group expects the new production facility to incrementally increase its production capacity up to approximately 2.0 million units annually by 2026.

— *Enhancing brand awareness.* The Group will leverage its proven success in entertainment marketing to expand its appeal among young users, particularly through targeted branding campaigns on campuses. Additionally, the Group plans to elevate brand awareness through strategic co-branding with other well-known brands. The Group's marketing campaigns will aim to reinforce the Group's brand image of reliability and innovation around its marketing tagline of "Luyuan Liquid-cooled Electric Vehicles, A Ten-Year Ride" (綠源液冷電動車，一部車騎十年), showcasing the quality, durability and technological advantages of its liquid-cooled electric vehicles and other popular products.

— *Upgrading, expanding and optimizing the layout of the Group's sales and distribution network.* The Group attempts to bring online traffic to its physical retail outlets by leveraging various marketing vehicles including social media to carry out branding and promotion activities. The Group will also launch new products to satisfy the needs of different market segments and provide competitive product matrix for different regions. The Group plans to further support and motivate distributors to operate additional retail outlets or develop sub-distributors, especially in Eastern China and Central and Southern China.

— *Expanding the Group's business in international markets.* The Group will focus on expanding its presence in the Southeast Asia markets, such as major cities of Thailand, Indonesia, Malaysia, and Vietnam. The Group will also promote innovative cooperation in Europe and the United States to enhance its brand potential, and develop products that meet local consumers' needs.

With continuous and comprehensive enhancement of its capabilities, the Group believes that it is well-positioned to capture the opportunities arising from the fast-paced developing global market for electric mobility.

## REVENUE

The Group recorded revenue of RMB5,083.0 million in 2023, representing an increase of approximately 6.3% from RMB4,783.0 million in 2022, primarily due to the increases in the sales volume of electric two-wheeled vehicles and batteries, which are attributable to the Group's successful application of core technologies that enhanced the Group's product competitiveness and further expansion of the Group's retail outlets network.

| | For the year ended December 31, | | | |
|---|---|---|---|---|
| | **2023** | | 2022 | |
| | **RMB'000** | **%** | RMB'000 | % |
| **Types of products** | | | | |
| Electric bicycles | **2,699,887** | **53.1** | 2,232,086 | 46.7 |
| Electric scooters[1] | **1,021,390** | **20.1** | 1,212,064 | 25.3 |
| Batteries[2] | **1,093,648** | **21.5** | 1,052,365 | 22.0 |
| Electric two-wheeled vehicle parts[3] | **201,200** | **4.0** | 226,164 | 4.7 |
| Others | **1,408** | **0.0** | 5,090 | 0.1 |
| *Subtotal* | **5,017,533** | **98.7** | 4,727,769 | 98.8 |
| **Types of services** | | | | |
| Training services | **26,611** | **0.5** | 36,765 | 0.8 |
| Others | **38,838** | **0.8** | 18,489 | 0.4 |
| *Subtotal* | **65,449** | **1.3** | 55,254 | 1.2 |
| **Total** | **5,082,982** | **100.0** | 4,783,023 | 100.0 |

Notes:

(1) Representing electric motorcycles and electric mopeds. The revenue and sales volume of electric mopeds represent a relatively small portion of the Group's total revenue and sales volume, thus the revenue of electric mopeds has been grouped together with that of electric motorcycles.

(2) Representing batteries sold together with the Group's electric two-wheeled vehicles.

(3) Representing vehicle parts, such as tires and batteries, sold separately to distributors for their provision of after-sales services to end customers.

Revenue from sales of electric bicycles increased by approximately 21.0% from RMB2,232.1 million in 2022 to RMB2,699.9 million in 2023, primarily due to the Group's timely response to the change in customers preferences resulting in an increase in the sales volume of electric bicycles by approximately 26.4%.

Revenue from sales of electric scooters decreased by approximately 15.7% from RMB1,212.1 million in 2022 to RMB1,021.4 million in 2023, primarily due to a decrease in the sales volume of electric mopeds by approximately 78.2% as a result of the lasting effects of the implementation of the Safety Technical Specification for Electric Bicycle (GB17761-2018) (《電動自行車安全技術規範》(GB17761-2018)) in 2019. This technical standard, which prohibits electric mopeds from carrying passengers and requires riders to hold a valid license, has continued to impact the market and resulted in a decline in consumer demand for electric mopeds.

Revenue from sales of batteries increased by approximately 3.9% from RMB1,052.4 million in 2022 to RMB1,093.6 million in 2023, primarily due to an increase in the sales volume of batteries by 7.3%.

## COST OF SALES

Cost of sales of the Group increased by approximately 4.3% from RMB4,221.7 million in 2022 to RMB4,401.7 million in 2023, primarily in line with sales growth of the Group.

## GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit for the Group increased by approximately 21.4% from RMB561.3 million in 2022 to RMB681.2 million in 2023.

The gross profit margin for the Group increased from 11.7% in 2022 to 13.4% in 2023, primarily attributable to (i) increased sales contribution from high-end products with higher gross profit margins; (ii) the decrease in manufacturing costs as a result of the Group's efforts in research and development to optimize its manufacturing process; and (iii) the decrease in average procurement costs as a result of economies of scale derived from the Group's growing purchase amount.

## SELLING AND MARKETING COSTS

Selling and marketing costs of the Group increased by approximately 21.8% from RMB259.6 million in 2022 to RMB316.2 million in 2023, primarily attributable to the increases in advertising expenses, employee benefits expenses and e-commerce information system fees.

## ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased by approximately 11.4% from RMB89.1 million in 2022 to RMB99.2 million in 2023, primarily attributable to an increase in employee benefits expenses.

## RESEARCH AND DEVELOPMENT COSTS

Research and development costs of the Group increased by approximately 25.8% from RMB150.5 million in 2022 to RMB189.4 million in 2023, primarily attributable to the increases in employee benefits expenses and mould depreciation and design fees.

## PROVISION OF IMPAIRMENT ON FINANCIAL ASSETS

Provision of impairment on financial assets decreased by approximately 45.0% from RMB1.7 million in 2022 to RMB0.9 million in 2023, primarily attributable to a slight decrease in the balance of other receivables.

## OTHER INCOME

Other income of the Group increased by approximately 66.1% from RMB37.8 million in 2022 to RMB62.7 million in 2023, primarily attributable to the increase in government grants, which mainly comprised the general support, subsidies for stabilizing employment, tax refunds and other subsidies granted by the local governments.

## OTHER EXPENSE

Other expense of the Group remained relatively stable at RMB6.1 million in 2022 and RMB6.5 million in 2023, respectively.

## OTHER GAINS — NET

Other gains — net of the Group decreased by approximately 74.0% from RMB33.6 million in 2022 to RMB8.7 million in 2023, primarily because (i) the handling fees incurred by the Group in relation to debt instruments measured at fair value through other comprehensive income increased in 2023; and (ii) the Group recorded gains from disposal of associates in 2022 and no such gains were recorded in 2023.

## FINANCE INCOME/(COSTS) — NET

The Group recognized a net finance income of RMB10.7 million in 2023 while it incurred net finance costs of RMB3.7 million in 2022, primarily due to an increase in the interest income on bank deposits and a decrease in the interest expenses of bank borrowings.

## SHARE OF RESULTS OF ASSOCIATES

The Group's share of results of associates represents the profits attributable to it from its equity interest in the associate. Share of results of associates of the Group decreased by approximately 63.7% from RMB201,000 in 2022 to RMB73,000 in 2023, primarily due to the decrease in the profits of associate of the Group.

## INCOME TAX EXPENSES

Income tax expenses of the Group increased by approximately 31.2% from RMB4.2 million in 2022 to RMB5.5 million in 2023, primarily attributable to an increase in the Group's profits for the year.

## PROFIT FOR THE YEAR

As a result of the foregoing, profit for the year of the Group increased by approximately 23.4% from RMB118.0 million in 2022 to RMB145.6 million in 2023.

## INVENTORIES

The Group's inventories consist of raw materials, work in progress, finished goods and goods in transit. The Group's inventories decreased by approximately 43.0% from RMB445.7 million as of December 31, 2022 to RMB254.0 million as of December 31, 2023, primarily due to the Group's improved asset management efficiency thereby leading to a faster turnover of inventories in 2023.

## TRADE RECEIVABLES

The Group's trade receivables increased by approximately 10.1% from RMB167.5 million as of December 31, 2022 to RMB184.4 million as of December 31, 2023, primarily attributable to the increase in credit sales to institutional customers.

## OTHER RECEIVABLES AND PREPAYMENTS

The Group's other receivables and prepayments increased by approximately 33.0% from RMB248.7 million as of December 31, 2022 to RMB330.7 million as of December 31, 2023, primarily due to the increases in payment of decoration costs and prepaid advertising expenses.

The other receivables and prepayments of the Group include, among others, loans to third parties and loan to a related party. Loans to third parties representing loans to certain distributors to supports their normal business operations decreased from RMB5.6 million as of December 31, 2022 to RMB3.4 million as of December 31, 2023. For details regarding loans to third parties, please see notes 3.1.2 and 24(d) to the consolidated financial statements and the section headed "Financial Information — Other Receivables and Prepayments" in the Prospectus. Loan to a related party decreased from RMB11.0 million as of December 31, 2022 to nil as of December 31, 2023, which was primarily because the loan to Linyi Luyuan in 2019 to support its then normal business operations had been fully settled in 2023. For details relating to the loan to the related party, please see notes 3.1.2, 14, 24(c), 38(a) and 38(c) to the consolidated financial statements and the section headed "Financial Information — Other Receivables and Prepayments" in the Prospectus.

The Directors are of the view that the terms of the respective loan agreements were of normal commercial terms, fair and reasonable and the granting of these loans was in the interests of the Company and the Shareholders as a whole.

## PROPERTY, PLANT AND EQUIPMENT

The Group's property, plant and equipment consist of buildings, machinery and equipment, office equipment, motor vehicles, construction in progress and decoration and leasehold improvement. Property, plant and equipment of the Group increased by approximately 13.6% from RMB844.1 million as of December 31, 2022 to RMB958.6 million as of December 31, 2023, primarily due to the expansion in production scale and the upgrading of equipment.

## FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

The financial assets at FVTPL held by the Group mainly comprise certificate of deposits and structured deposits and other wealth management products purchased from reputable commercial banks. The balance of financial assets at FVTPL increased by approximately 2.2% from RMB533.6 million as of December 31, 2022 to RMB545.3 million as of December 31, 2023, primarily attributable to the increase in certificate of deposits. For the Reporting Period, the Company recorded gains from fair value changes on financial assets at FVTPL of RMB15.6 million. The Group's investment in wealth management products and structured deposits is for the purpose of improving the return on idle cash and bank balances.

## TRADE PAYABLES

The Group's trade payables decreased by approximately 24.3% from RMB588.4 million as of December 31, 2022 to RMB445.6 million as of December 31, 2023, primarily due to the decrease in payables for the procurement of inventories as a result of a faster turnover of inventories.

## CAPITAL STRUCTURE

The total assets of the Group increased by approximately 21.3% from RMB3,184.0 million as of December 31, 2022 to RMB3,862.5 million as of December 31, 2023. The total liabilities of the Group decreased by approximately 6.8% from RMB2,504.2 million as of December 31, 2022 to RMB2,334.9 million as of December 31, 2023. Total liabilities-to-assets ratio decreased from 78.6% as of December 31, 2022 to 60.5% as of December 31, 2023. The current ratio of the Group, being current assets divided by current liabilities as of the respective date, increased from 0.99 times as of December 31, 2022 to 1.44 times as of December 31, 2023.

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group adopts a stable and prudent funding and treasury policy with a view to optimizing its financial position and mitigating financial risks. The Group examines and monitors its funding requirements on a regular basis to ensure sufficient financial resources to sustain its current business operations and its future investments and expansion plans.

For the Reporting Period, the Group financed its operations primarily through cash and cash equivalents, cash flows from operating activities, available bank loans and banking facilities, and Net Proceeds. The Group's primary uses of cash are to satisfy its working capital and capital expenditure needs. Cash and cash equivalents of the Group increased by approximately 151.9% from RMB395.0 million as of December 31, 2022 to RMB995.0 million as of December 31, 2023, primarily attributable to the Net Proceeds and cash from operations. During the Reporting Period, the Group did not use any financial instrument for hedging purpose and did not have any outstanding hedging instruments as of December 31, 2023.

Gearing ratio is calculated by total debt, comprising borrowings and lease liabilities, divided by total equity as of the same date and multiplied by 100%. The gearing ratio of the Group decreased from 97.3% as of December 31, 2022 to 42.6% as of December 31, 2023, primarily due to an increase in the total equity as a result of the Global Offering.

As of December 31, 2023, the Group had interest-bearing bank and other borrowings of RMB643.3 million (as of December 31, 2022: RMB656.6 million), representing 27.6% (as of December 31, 2022: 26.2%) of its total liabilities as of the same date. All of the borrowings of the Group are denominated in Renminbi. There is generally no seasonality of borrowing requirements of the Group. Of all the borrowings of the Group as of December 31, 2023, RMB166.0 million (as of December 31, 2022: RMB286.9 million) were repayable within one year and RMB477.3 million (as of December 31, 2022: RMB369.7 million) were repayable beyond one year. The Group's bank borrowings amounting to RMB279.8 million as of December 31, 2023 (as of December 31, 2022: RMB312.0 million) were borrowings with fixed interest rates.

As of December 31, 2023, banking facilities of the Group totaling RMB1,665.0 million (as of December 31, 2022: RMB1,575.0 million) were utilized to the extent of RMB921.6 million (as of December 31, 2022: RMB894.3 million).

## CAPITAL EXPENDITURES

The Group's capital expenditures decreased by approximately 13.0% from RMB233.7 million in 2022 to RMB203.3 million in 2023. The Group's capital expenditures are primarily used for the expansion of its production capacities, including the construction of additional production facilities and the upgrading of its existing machinery and equipment. The Group finances its capital expenditures through cash generated from operations, bank loans and the Net Proceeds.

## FOREIGN EXCHANGE RISK AND HEDGING

The Group operates in the PRC with most of the transactions settled in RMB. Foreign currency risk arises when commercial transactions or recognized assets or liabilities are denominated in a currency other than the entities' functional currency. The Group is exposed to foreign currency risk primarily with respect to USD and HKD.

As of the date of this annual report, the Group has not hedged its foreign currency exchange risks but has closely managed its foreign currency risk by performing regular reviews of its net foreign currency exposures and may enter into currency forward contracts, when necessary, to manage its foreign exchange exposure.

## HUMAN RESOURCES

As of December 31, 2023, the Group had 2,906 employees, as compared with 2,470 employees as of December 31, 2022. Total staff costs, including employee benefits expenses and outsourcing labor fee but excluding the Directors' remuneration, were RMB472.2 million in 2023, representing an increase of approximately 14.5% from RMB412.4 million in 2022, such increase was primarily due to (i) the increased headcount and pay rises as a result of the Group's expansion in production scale and increase in sales volume; and (ii) the share-based payments made in relation to the grant of options under the Pre-IPO Share Scheme in 2023 and no share-based payments were made in 2022.

The remuneration of employees was based on their performance, skills, knowledge, experience and market trend. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment commensurate with the pay level in the industry. In addition to basic salaries, employees may be offered with discretionary bonus, cash awards and share awards based on individual performance. The Group provides training periodically and across operational functions, including introductory training for new employees, technical training, product training, management training and work safety training, with a view to fostering the basic skills of new employees to perform their duties and improving the relevant skills of the existing employees as well.

For the purposes of (i) attracting, remunerating, incentivizing, retaining, rewarding, compensating and/or providing benefits to qualified employees; (ii) aligning the interests of qualified employees with the Company and Shareholders of the Company; and (iii) encouraging qualified employees to contribute to the long-term growth, performance and profits of the Company and enhancing the value of the Company and its Shares, the Company adopted the Pre-IPO Share Scheme on July 20, 2023 and conditionally adopted the Post-IPO Share Scheme (as defined in the Prospectus) on August 21, 2023.

As of December 31, 2023, (i) share options to subscribe for an aggregate of 16,736,000 underlying Shares, representing approximately 3.92% of the total issued Shares as of December 31, 2023, were granted to 108 Eligible Participants (as defined in the Prospectus) and remained outstanding under the Pre-IPO Share Scheme; and (ii) no share awards or share options had been granted or agreed to be granted under the Post-IPO Share Scheme. Further details of the Pre-IPO Share Scheme and Post-IPO Share Scheme are set out in the sections headed "Statutory and General Information — D. Share Incentive Schemes — 1. Pre-IPO Share Scheme" and "Statutory and General Information — D. Share Incentive Schemes — 2. Post-IPO Share Scheme" in Appendix IV to the Prospectus respectively.

## CONTINGENT LIABILITIES

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

## PLEDGE OF ASSETS

As of December 31, 2023, the property, plant and equipment and right-of-use assets of the Group with net book values of RMB495.6 million and RMB88.4 million (as of December 31, 2022: RMB478.7 million and RMB81.9 million) respectively were pledged as collateral for the Group's borrowings.

As of December 31, 2023, wealth management products and structured deposits and certificate of deposits of the Group in the amount of RMB447.4 million (as of December 31, 2022: RMB435.0 million) were pledged as security for the Group's notes payable.

As of December 31, 2023, 100% of the Group's equity interest in Guangxi Luyuan Electric Vehicle Co., Ltd., a wholly-owned subsidiary of the Company, and certain patents of the Group were pledged as security for the Group's bank borrowings.

Save as disclosed above, the Group had no other pledged assets as of December 31, 2023.

## SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On October 25, 2023, Zhejiang Luyuan, a wholly-owned subsidiary of the Company, established Chongqing Luyuan with registered capital of RMB200 million and owns 100% of its registered capital. Accordingly, Chongqing Luyuan is an indirect wholly-owned subsidiary of the Company and is principally engaged in the manufacture of electric vehicles and accessories. The establishment of Chongqing Luyuan was the first step to facilitate the Group's future strategic development in Southwestern part of the PRC. For updates regarding Chongqing Luyuan after the end of the Reporting Period, please also refer to the section headed "Management Discussion and Analysis — Events after the Reporting Period" in this annual report.

Save as disclosed above, (i) the Group did not hold any significant investment during the Reporting Period, and (ii) the Group did not conduct any material acquisition or disposal of any subsidiaries, associates and joint ventures during the Reporting Period. In addition, save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the Prospectus, there was no specific plan authorized by the Board for other material investments or acquisition of capital assets. However, the Group will continue to identify new opportunities for business development.

## USE OF PROCEEDS

The Company was listed on the Stock Exchange on the Listing Date. The Net Proceeds amounted to approximately HKD706.4 million after deduction of the underwriting fees and commissions and other estimated expenses paid and payable by the Company in relation to the Global Offering. The following table sets forth the status of the use of the Net Proceeds[1]:

| Intended use of Net Proceeds | Percentage of intended use of Net Proceeds (%) | Intended use of Net Proceeds from the initial public offering (In HKD millions) | Utilized Net Proceeds as of December 31, 2023 (In HKD millions) | Unutilized Net Proceeds as of December 31, 2023 (In HKD millions) | Timeframe for the unused balance |
|---|---|---|---|---|---|
| **Expand research and development capabilities to maintain the Group's technical edge** | **30.0** | **211.9** | **27.8** | **184.1** | **By the end of 2025** |
| Research and development of new and upgraded products as well as technologies | 24.0 | 169.5 | 6.7 | 162.8 | By the end of 2024 |
| Recruitment of additional research and development personnel | 3.0 | 21.2 | 0.1 | 21.1 | By the end of 2024 |
| Other research and development costs, including purchasing and upgrading research and development equipment | 3.0 | 21.2 | 21.0 | 0.2 | By the end of 2025 |
| **Strengthen sales and distribution channels and raising brand awareness** | **30.0** | **211.9** | **68.9** | **143.1** | **By the end of 2024** |
| Expand and optimize the Group's retail outlets in mainland China | 18.0 | 127.2 | 29.8 | 97.4 | By the end of 2024 |
| Branding and marketing activities | 9.0 | 63.6 | 37.1 | 26.5 | By the end of 2024[2] |
| Enhance online channels and bring online traffic to the Group's physical retail outlets | 1.5 | 10.6 | 2.0 | 8.6 | By the end of 2024[2] |
| Expand the Group's sales in international markets | 1.5 | 10.6 | – | 10.6 | By the end of 2024[2] |

## MANAGEMENT DISCUSSION AND ANALYSIS

| Intended use of Net Proceeds | Percentage of intended use of Net Proceeds (%) | Intended use of Net Proceeds from the initial public offering (In HKD millions) | Utilized Net Proceeds as of December 31, 2023 (In HKD millions) | Unutilized Net Proceeds as of December 31, 2023 (In HKD millions) | Timeframe for the unused balance |
|---|---|---|---|---|---|
| **Strengthen the Group's production capabilities** | **30.0** | **211.9** | **6.3** | **205.7** | **By the end of 2024** |
| Acquisition of land use rights and production infrastructure construction in relation to the construction of a new production facility in a Southwestern China city with mature supply chains and supporting resources | 12.0 | 84.8 | — | 84.8 | By the end of 2024 |
| Capacity expansion plan of the Group's Shandong Plant | 9.0 | 63.6 | 3.7 | 59.9 | By the end of 2024 |
| Capacity expansion plan of the Group's Guangxi Plant | 9.0 | 63.6 | 2.6 | 61.0 | By the end of 2024 |
| **Working capital and other general corporate purposes** | **10.0** | **70.6** | **45.4** | **25.2** | **By the end of March 2024[2]** |
| **Total** | **100.0** | **706.4** | **148.4** | **558.0** | **By the end of 2025** |

Notes:

(1) The figures in the table are approximate figures.

(2) The Net Proceeds have been used according to the intentions previously disclosed in the section headed "Future Plans and Use of Proceeds" of the Prospectus. However, as additional time was required to complete the necessary administrative procedures, the Company experienced delay in using part of the Net Proceeds. Unutilized Net Proceeds of approximately HKD25.2 million for working capital and other general corporate purposes as of December 31, 2023 had only been fully utilized by the end of March 2024 and it is expected that unutilized Net Proceeds of (i) approximately HKD26.5 million for branding and marketing activities; (ii) approximately HKD8.6 million for enhancing online channels and bringing online traffic to the Group's physical retail outlets; and (iii) approximately HKD10.6 million for expanding the Group's sales in international markets as of December 31, 2023 will be fully utilized by the end of 2024. The Directors considered that such delay in the utilization of the Net Proceeds will not have any material adverse impact on the operation of the Group.

The current expected timeframe for utilizing the remaining unused Net Proceeds in full are based on the best estimation by the Directors barring any unforeseen circumstances, and may be subject to change based on the Group's operating conditions and prevailing and future development of market conditions. The Directors will assess the plans for the use of the unutilized Net Proceeds on an ongoing basis and may revise or modify such plans where necessary to respond to the changing market conditions with a view to promoting a better growth and development of the Group. The Group will continue to evaluate the use of the unutilized Net Proceeds cautiously and monitor the market conditions closely to adjust the use of the unutilized Net Proceeds where necessary for the long-term development of the Group. The Company will make appropriate announcement(s) in due course in accordance with and if required under the Listing Rules should there be any material change in the intended use of the unutilized Net Proceeds.

As of the date of this annual report, save as disclosed in the table above, the Directors are not aware of any material change or delay to the planned use of the Net Proceeds. Further details of the breakdown of the use of the Net Proceeds are set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

## ROUNDING

Certain amounts and percentage figures included in this annual report have been subject to rounding adjustments. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

## EVENTS AFTER THE REPORTING PERIOD

As disclosed in the announcement of the Company dated January 26, 2024, the Board has resolved to establish a trust with a professional trustee (the "**Trustee**") for the Post-IPO Share Scheme and approve a share purchase plan, pursuant to which the Company will, subject to and in accordance with the rules of the Post-IPO Share Scheme, instruct and procure the Trustee to purchase existing Shares on-market for an aggregate consideration of not exceeding HKD100 million over the one-year period from April 12, 2024 to April 11, 2025. The Shares so purchased will be held on trust and used as awards for the eligible participants under the Post-IPO Share Scheme. As of the date of annual report, the Trustee does not hold any Shares. Further details are set out in the announcement of the Company dated January 26, 2024.

As disclosed in the announcement of the Company dated March 1, 2024, Chongqing Luyuan has acquired state-owned construction land use rights for a parcel of land in Dazu District, Chongqing City, PRC for construction of the Chongqing Plant, a production facility. As of the date of this annual report, the construction of the Chongqing Plant has commenced. Further details are set out in the announcement of the Company dated March 1, 2024.

The Group has no other material subsequent events since the end of the Reporting Period up to the date of this annual report.

# DIRECTORS AND SENIOR MANAGEMENT

## OUR DIRECTORS

### Executive Directors

**Mr. Ni Jie (倪捷)**, aged 62, is the co-founder of the Group, chairman of the Board and executive Director. He is also the controlling Shareholder of the Company. He is the husband of Ms. Hu and father of Ms. Ni Boyuan. Mr. Ni is primarily responsible for formulating the development strategies and overseeing the management and research of the Group.

As of the Latest Practicable Date, (i) Mr. Ni wholly owned Drago Investments, which held 131,200,000 Shares, representing approximately 30.75% of the total issued share capital in the Company; and (ii) Mr. Ni and his spouse, Ms. Hu, each owned 50% of the total issued share capital in Best Expand, which held 15,264,000 Shares, representing approximately 3.58% of the total issued share capital in the Company. Apex Marine, which held 131,200,000 Shares, representing approximately 30.75% of the total issued share capital in the Company, is wholly owned by Ms. Hu as of the Latest Practicable Date. Accordingly, Mr. Ni is interested or deemed to be interested in 277,664,000 Shares, representing approximately 65.08% of the total issued share capital in the Company.

Mr. Ni has over 34 years of experience in product development, including more than 25 years of experience in the electric two-wheeled vehicle industry. He had been the chairman of the board of Zhejiang Luyuan Electric Vehicle Co., Ltd. (浙江綠源電動車有限公司) from May 2003 to December 2017 and the president since January 2018, where he was primarily responsible for formulating development strategies and overseeing the overall management and research operation of the company. Mr. Ni served various positions roles at the Zhejiang Jinhua Welding Equipment and Materials Factory (浙江金華焊接設備材料廠), including the chief engineer and deputy factory manager from February 1989 to May 1994. He also served as the chairman of the board of Jinhua Luyuan Electric Vehicle Co., Ltd. (金華市綠源電動車有限公司), an electric two-wheeled vehicle manufacturer from July 1997 to May 2003 and as a business and economics lecturer at Ningbo University (寧波大學) in the PRC from July 1986 to February 1990. Mr. Ni has been the vice chairman of the technical committee of the China Bicycle Association (中國自行車協會) since November 2019 and was awarded first prize in the Science and Technology Invention Award in the Liquid Cooled Integrated Motors category, first prize in the Science and Technology Progress Award in the Double Cabin High Speed Motors category and second prize in the Science and Technology Progress Award in the Technology Development of High Efficiency Liquid Cooled Motors for Electric Vehicles category by the China National Light Industry Council (中國輕工業聯合會) in March 2023, March 2022 and January 2021, respectively. He was also a member of the standing committee of the 5th, 6th, 7th and 8th Jinhua City, Zhejiang Province Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議浙江省金華市委員會). In addition, Mr. Ni has acquired rich industry experience and obtained a number of industry awards, including being selected as one of the top 10 businessmen in Zhejiang (風雲浙商) in 2005, the second session of leading figure of China's industrial industry (第二屆中國工業行業領軍人物) by the China Industrial Economy Annual Person Selection Office (中國工業經濟年度人物評選活動辦公室), one of the top 10 industry persons (電動車行業十大風雲人物) by China Energy Power (中國能源動力) in 2013, one of the top 10 industry persons (電動車行業十大風雲人物) by China Network Television (央視網) in 2010, Business Leader of the Year (年度領袖商業人物) by Cailian Press (財聯社) in 2023 and being awarded as a meritorious entrepreneur in Zhejiang province (浙江省功勳企業家) by Zhejiang Enterprise Federation (浙江省企業聯合會), Zhejiang Entrepreneur Association (浙江省企業家協會) and Zhejiang Industrial Economy Federation (浙江省工業經濟聯

合會), collectively, in 2018. Mr. Ni has also served as the president of the Zheshang National Council Presidium (浙商全國理事會主席團主席) in 2010 and 2011, the vice chairman of the ninth council of the China Bicycle Association (中國自行車協會第九屆理事會副理事長) in 2018 and the vice president of the alumni association of University of Science and Technology of China (中國科學技術大學校友會副會長) in 2021.

Mr. Ni received his master's degree in engineering majoring in communication and electronic systems and bachelor's degree in engineering majoring in radio electronics from the University of Science and Technology of China (中國科學技術大學) in the PRC in October 1986 and July 1983, respectively. Mr. Ni obtained the qualification certificate of engineering issued by Jinhua Municipal People's Government in December 1993 and obtained the professional qualification as certified senior engineer issued by the Zhejiang Machinery Industry Federation (浙江省機械工業聯合會) in December 2019.

Mr. Ni was a director, supervisor or general manager of various companies that were either incorporated in Hong Kong or established in the PRC prior to their deregistration/suspension/strike off/business license revoked. Further details are set out in the section headed "Directors and Senior Management — Directors — Other disclosure pursuant to Rule 13.51(2) of the Listing Rules" in the Prospectus.

**Ms. Hu Jihong (胡繼紅)**, aged 58, is the executive Director, co-founder and chief executive officer of the Group. Since May 2003, she has been the president of the Group where she is primarily responsible for the overall management and operation of the Group. She is the wife of Mr. Ni and mother of Ms. Ni Boyuan.

As of the Latest Practicable Date, (i) Ms. Hu wholly owned Apex Marine, which held 131,200,000 Shares, representing approximately 30.75% of the total issued share capital in the Company; and (ii) Ms. Hu and her spouse, Mr. Ni, each owned 50% of the total issued share capital in Best Expand, which held 15,264,000 Shares, representing approximately 3.58% of the total issued share capital in the Company. Mr. Ni wholly owned Drago Investments, which held 131,200,000 Shares, representing approximately 30.75% of the total issued share capital in the Company as of the Latest Practicable Date. Accordingly, Ms. Hu is interested or deemed to be interested in 277,664,000 Shares, representing approximately 65.08% of the Shares.

Ms. Hu has over 25 years of experience in the electric two-wheeled vehicle industry. She served various positions at Zhejiang Luyuan Electric Vehicle Co., Ltd. (浙江綠源電動車有限公司), including the president from May 2003 to December 2017 and has been the chairman of its board since January 2018, where she is primarily responsible for planning and making major decisions for the company and overseeing the management and daily operations of the company. Ms. Hu also worked as a mathematics lecturer in Ningbo University (寧波大學) in the PRC from June 1988 to February 1989 and as the deputy factory manager of Zhejiang Jinhua Welding Equipment and Materials Factory (浙江金華焊接設備材料廠) from February 1989 to May 1994, where she was responsible for the development of welding equipment and materials production. She was also the president of Jinhua Luyuan Electric Vehicle Co., Ltd. (金華市綠源電動車有限公司) from July 1997 to May 2003. She is a representative of the 12th Shandong Provincial People's Congress and has been the vice chairperson of the China Fashion and Color Association (中國流行色協會) since December 2019. She was awarded the Jinhua Outstanding Entrepreneur (Golden Bull Award) (金華市優秀企業家(金牛獎)稱號) by the Organization Department of the Jinhua Municipal Committee of the Communist Party of China (中共金華市委組織部), the New Economy and New Social Organization Working Committee of the Jinhua Municipal Committee of the Communist Party of China (中共金華市委新經濟與新社會組織工作委員會), the Jinhua

Economic and Information Commission (金華市經濟和信息化委員會), the Jinhua Federation of Trade Unions (金華市總工會), the Jinhua Enterprise Federation (金華市企業聯合會) and the Jinhua Entrepreneurs Association (金華市企業家協會), collectively, in 2013 and the 5th Zhejiang Outstanding Female Entrepreneur (浙江省第五屆浙商女傑稱號) by Zhejiang Private Enterprise Development Federation (浙江省民營企業發展聯合會), Zhejiang Association for the Promotion of Regional Economic Cooperation Enterprise Development (浙江省區域經濟合作企業發展促進會), Zhejiang Administration for Industry and Commerce News Center (浙江省工商行政管理局新聞中心), Zhejiang Market Association (浙江省市場協會) and Market Guide (市場導報社), collectively, in 2012. She received her master's and bachelor's degree in power system and automation from Hefei University of Technology (合肥工業大學) in the PRC in July 1988 and August 1985, respectively, and an executive master of business administration from China Europe International Business School (中歐國際工商學院) in the PRC in August 2014.

Ms. Hu was a director, supervisor or general manager of the various companies that were either incorporated in Hong Kong or established in the PRC prior to their deregistration/strike off/business license revoked. Further details are set out in the section headed "Directors and Senior Management — Directors — Other disclosure pursuant to Rule 13.51(2) of the Listing Rules" in the Prospectus.

**Mr. Chen Guosheng (陳郭勝)**, aged 48, was appointed as the executive Director and chief financial officer of the Group. He is primarily responsible for financial and capital management and product risk control of the Group. Mr. Chen has been the vice president of Zhejiang Luyuan Electric Vehicle Co., Ltd. (浙江綠源電動車有限公司) since January 2012.

Prior to joining the Group, he worked as a lawyer in Shanghai Zhengguan Changhong Law Firm (上海正貫長虹律師事務所) and also in Zhejiang Lianhao Law Firm (浙江聯浩律師事務所) from 2003 to 2004 and from 2006 to 2011.

Mr. Chen graduated from Ningbo University (寧波大學) in the PRC with a major in law in July 2002. He obtained the Legal Profession Qualification Certificate of the PRC issued by the Ministry of Justice of the People's Republic of China (中華人民共和國司法部) in September 2002.

Mr. Chen was a supervisor of Linyi Luling Property Service Co., Ltd. (臨沂市綠領物業服務有限公司), which was established in the PRC prior to its deregistration. Further details are set out in the section headed "Directors and Senior Management — Directors — Other disclosure pursuant to Rule 13.51(2) of the Listing Rules" in the Prospectus.

## Independent Non-executive Directors

**Mr. Wu Xiaoya (吳小亞)**, aged 50, was appointed as the independent non-executive Director in July 2022. He is primarily responsible for providing independent advice and judgment to the Board.

Mr. Wu has over 15 years of experience in audit. From November 2007 to December 2012, he served as the head of the firm at Anhui Huawan Accounting Firm (安徽華皖會計師事務所). Since 2014, he has been the managing partner of Zhonghua Certified Public Accountants LLP (眾華會計師事務所(特殊普通合夥)) and the head of Anhui branch of Zhonghua Certified Public Accountants LLP (眾華會計師事務所(特殊普通合夥)安徽分所).

Currently, Mr. Wu serves as the independent director of four companies, namely, NanJi E-Commerce Co., Ltd. (南極電商股份有限公司), a company listed on the SZSE (stock code: 002127) which is engaged in e-commerce and brand authorisation services and mobile internet marketing, since June 2018, Anhui A-rising New Energy Incorporated Company (安徽安瑞升新能源股份有限公司), a company listed on NEEQ (stock code: 834489) that is primarily engaged in the wholesale and sales of compressed natural gas in parent station and substation, since December 2019, Yiwu Technology Co., Ltd. (壹物科技股份有限公司), a company principally engaged in the production and sales of polymer materials and electrostatic protective materials for semiconductor liquid crystals, since April 2020 and Anhui Jing Sai Technology Co., Ltd. (安徽晶賽科技股份有限公司), a company listed on NEEQ (stock code:871981) that is principally engaged in the design, research and development and production and sales of quartz crystal oscillator and its packaging materials, since April 2021. From April 2016 to May 2022, Mr. Wu also served as the independent director of Anhui Yangzi Floor Co., Ltd. (安徽揚子地板股份有限公司), a company listed on NEEQ (stock code: 430539) that is principally engaged in the research and development, production and sales of flooring.

Mr. Wu has been a certified public accountant granted by The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in the PRC since June 2001. He graduated from the Southwestern University of Finance and Economics (西南財經大學) in the PRC with a major in finance in September 2004 through distance learning.

Mr. Wu was a supervisor of various companies which were established in the PRC prior to their deregistration. Further details are set out in the section headed "Directors and Senior Management — Directors — Other disclosure pursuant to Rule 13.51(2) of the Listing Rules" in the Prospectus.

**Mr. Peng Haitao (彭海濤)**, aged 65, was appointed as the independent non-executive Director in July 2022. He is primarily responsible for providing independent advice and judgment to the Board.

Mr. Peng has extensive years of experience in the organization, operation, management and development of markets, consumers and enterprises including working for PepsiCo (China) Limited (百事(中國)有限公司) whose parent company, PepsiCo, Inc., is listed on the New York Stock Exchange (stock code: PEP), the Shanghai branch of Standard Chartered Bank (UK) Limited (英國渣打銀行有限責任公司上海分行) and the Beijing Representative office of NBA Properties, Inc.(美國籃球協會資產有限公司北京代表處). Besides, from April 2013 to July 2021, Mr. Peng was the legal representative of Inspiring (Shanghai) Investment Management Co., Ltd. (盈思百靈(上海)投資管理有限公司), a company that was principally engaged in investment management and consultation. He was also the personnel director of Pfizer Pharmaceuticals Limited, a pharmaceutical company whose parent company, Pfizer Inc., is listed on the New York Stock Exchange (stock code: PFE), in September 1990.

Mr. Peng received his bachelor's degree in engineering majoring in relay protection and power system automation from Northeast Electric Power University (東北電力大學), formerly known as Northeast China Institute of Electric Power Engineering (東北電力學院), in the PRC in July 1983. He subsequently received his master's degree in business administration from The State University of New York in the United States in June 1991.

Mr. Peng was a supervisor or general manager of various companies which were established in the PRC prior to their deregistration. Further details are set out in the section headed "Directors and Senior Management — Directors — Other disclosure pursuant to Rule 13.51(2) of the Listing Rules" in the Prospectus.

**Mr. Liu Bobin (劉伯斌)**, aged 50, was appointed as the independent non-executive Director in July 2022. He is primarily responsible for providing independent advice and judgment to the Board.

He worked as a telecommunication equipment manufacturer at Nanjing Zhongxing Software Co., Ltd. (南京中興軟件有限責任公司) from July 1996 to September 2008. Since August 2008, Mr. Liu has been working in Shanghai Zxelink Co., Ltd. (上海中興易聯通訊股份有限公司), formerly known as Shanghai Zhongxing Telecom Equipment Technologies Corporation (上海中興通訊技術股份有限公司), which was delisted from NEEQ since February 2021 and is a subsidiary of ZTE Corporation, a company focused in the research and development of telecommunication products, and is currently serving as the director and general manager.

Mr. Liu received his bachelor's degree in engineering from Tsinghua University (清華大學) in the PRC in July 1996 and subsequently received his master's degree in business administration from the China Europe International Business School (中歐國際工商學院) in the PRC in October 2014.

Mr. Liu was a director of Shandong Bobei Information Technology Co., Ltd. (山東博貝信息科技有限公司), which was established in the PRC prior to its deregistration. Further details are set out in the section headed "Directors and Senior Management — Directors — Other disclosure pursuant to Rule 13.51(2) of the Listing Rules" in the Prospectus.

**Mr. Chan Chi Fung Leo (陳志峰)**, aged 45, was appointed as the independent non-executive Director in June 2023. He is primarily responsible for providing independent advice and judgment to the Board.

Mr. Chan has over 20 years of experience in finance and accounting industry. He was a staff accountant at Ernst & Young from September 2001 to March 2004 and an executive at Kingsway Group Services Limited from January 2005 to June 2006. From June 2006 to July 2007, he was an associate at the corporate finance department of CCB International Capital Limited. From August 2007 to December 2011, he worked at BNP Paribas (Asia Pacific) Limited and his last position was an associate at the corporate finance. From December 2011 to April 2015, he worked for CITIC Securities International Company Limited, and his last position was a director at corporate finance department. Mr. Chan was a deputy managing director of VBG Capital Limited from May 2015 to April 2016 and the managing director of LY Capital Limited from May 2016 to October 2017. Since October 2017, Mr. Chan is the managing director of Red Solar Capital Limited, where he is mainly responsible for IPO and merger and acquisition projects.

Mr. Chan has been an independent non-executive director respectively of Sisram Medical Ltd., a listed company on the Stock Exchange (stock code: 1696), since August 2017 and of Ziyuanyuan Holdings Group Limited, a listed company on the Stock Exchange (stock code: 8223), since June 2018. From October 2020 to June 2023, Mr. Chan was also an independent non-executive director of Jinke Smart Service Group Co., Ltd., a listed company on the Stock Exchange (stock code: 9666).

Mr. Chan obtained his bachelor's degree in business administration from the Hong Kong University of Science and Technology in Hong Kong in November 2001. Mr. Chan has been a member of Hong Kong Institute of Certified Public Accountants since October 2005.

Mr. Chan was a director of Shockley Technology Holdings Limited (肖克利科技控股有限公司), which was incorporated in the Cayman Islands prior to its dissolution. Further details are set out in the section headed "Directors and Senior Management — Directors — Other disclosure pursuant to Rule 13.51(2) of the Listing Rules" in the Prospectus.

## SENIOR MANAGEMENT

**Mr. Chen Wensheng (陳文勝)**, aged 53, was appointed as the vice president of the Group in December 2013 and is primarily responsible for overall research and development of the Group, including research and development of product and technology. Prior to joining the Group, Mr. Chen worked for Zhejiang Jinhua Patent Technology Development Research Institute (浙江省金華專利技術開發研究所) from August 1992 to August 1996, an institute that focuses on patent technology development and application. He served as the electronics workshop director at Jinhua Luyuan Electric Vehicle Co., Ltd. (金華市綠源電動車有限公司) from July 1997 to December 1999, and as technical manager from January 2000 to May 2003. He joined the Group in May 2003 and served various positions at Zhejiang Luyuan Electric Vehicle Co., Ltd. (浙江綠源電動車有限公司), a wholly-owned subsidiary of the Company, including the technical manager, assistant general manager and the director of the testing centre from May 2003 to December 2004, the assistant director of the technology center from January 2005 to December 2005, the director of the production center from January 2006 to December 2006, the deputy general manager from January 2007 to December 2008, the general manager of the research and development center from January 2009 to December 2012, the general manager of the technology center from January 2010 to December 2010, the vice president and the director of the research and development center from January 2013 to September 2013, the general manager of the east China business unit from October 2013 to December 2017 and the vice president since November 2015. In July 1992, he graduated with a major in electrification in industrial enterprises from Zhejiang Machinery Industrial School (浙江機械工業學校), now known as Zhejiang Institute of Mechanical and Electrical Engineering (浙江機電職業技術學院) in the PRC. In June 2011, he graduated from Jinhua Polytechnic College (金華職業技術學院) in the PRC in which he specialized in mechanical and electrical equipment maintenance and management.

**Mr. Ding Xiao (丁霄)**, aged 40, was appointed as the vice president of the Group in December 2013 and is primarily responsible for managing domestic sales channels. He joined the Group as the assistant to the chairman of the board of Zhejiang Luyuan Electric Vehicle Co., Ltd. (浙江綠源電動車有限公司), a wholly-owned subsidiary of the Company, in June 2006, and was redesignated as the brand center director and the deputy general manager of the marketing center from January 2010 to September 2012. Since October 2012, he has been the vice president of marketing of Zhejiang Luyuan Electric Vehicle Co., Ltd., primarily responsible for managing domestic channel sales. Mr. Ding received his bachelor's degree in management in July 2005 from Zhejiang Chinese Medical University (浙江中醫藥大學), formerly known as Zhejiang College of Traditional Chinese Medicine (浙江中醫學院), in the PRC.

**Ms. Ni Boyuan (倪博原)**, aged 31, was appointed as the vice president of the Group in January 2021 and is primarily responsible for marketing of the Group, including brand promotion, retail operation and product planning. She is the daughter of Mr. Ni and Ms. Hu. Prior to joining the Group, she led the management and operations of Hangzhou Luling Internet Technology Co., Ltd. (杭州綠領網絡科技有限公司), a software development company, as an executive director from March 2015 to September 2016. From September 2016 to February 2018, she has been the chairperson of the board of Hangzhou Luling Internet Technology Co., Ltd. (杭州綠領網絡科技有限公司). She joined the Group in March 2018 as the assistant to the chairman of the board of Zhejiang Luyuan Electric Vehicle Co., Ltd. (浙江綠源電動車有限公司), a wholly-owned subsidiary of the Company, she was then the director of new retail department from January 2019 to December 2020 and has been the vice president since January 2021. She received her bachelor's degree in arts from Mount Holyoke College in the United States in May 2015.

## JOINT COMPANY SECRETARIES

**Mr. Chen Guosheng (陳郭勝)**, the executive Director and chief financial officer of the Group, is also a joint company secretary of the Company. See the paragraph headed "Executive Directors" for his biography.

**Ms. Chu Cheuk Ting (朱卓婷)** was appointed as a joint company secretary of the Company with effect from Listing. Ms. Chu currently serves a manager of the listing services department of TMF Hong Kong Limited and is responsible for the provision of corporate secretarial and compliance services to listed company clients. She has over 12 years of experience in the corporate service field. Ms. Chu is an associate of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. Ms. Chu holds a bachelor of arts degree from The Hong Kong Polytechnic University and a master of science in professional accounting and corporate governance from the City University of Hong Kong.

# CORPORATE GOVERNANCE REPORT

The Board is pleased to present the Corporate Governance Report of the Company for the year ended December 31, 2023.

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its affairs are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders. The Company has applied the principles as set out in the CG Code contained in Appendix C1 of Listing Rules and has also adopted certain recommended best practices as set out in the CG Code.

The Board has formulated and adopted guidelines, policies and procedures such as the code of conduct regarding the securities transactions by the Directors, terms of reference for board committees, board diversity policy and shareholders' communication policy to support the Group's corporate governance framework. These policies and procedures enable the Company to follow and apply the principles of the CG Code. These documents are reviewed by the Board and the relevant board committees from time to time and are updated in line with the applicable legislations and rules as well as the current market practices.

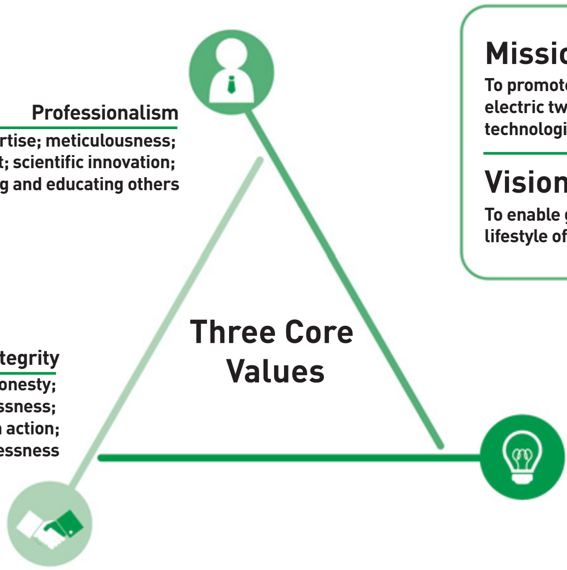
The Company has fully complied with the code provisions set out in the CG Code from the Listing Date to December 31, 2023. As the Shares were not listed on the Stock Exchange until the Listing Date, the CG Code has only been applicable to the Company since the Listing Date. For the purposes of complying with the CG Code and maintaining a high standard of corporate governance of the Company, the Board will continue to review and monitor the corporate governance status of the Company.

# CORPORATE GOVERNANCE REPORT

## PURPOSE, VALUE AND STRATEGY

### Mission
To promote the high-quality development of electric two-wheelers through globally leading technological innovation

### Vision
To enable global consumers to enjoy a wonderful lifestyle of easy travel




**Professionalism**
Solid technical expertise; meticulousness; continuous improvement; scientific innovation; leading courageously; fostering and educating others

**Integrity**
Sincerity and integrity; openness and honesty; seeking truth from facts; integrity and selflessness; integrating knowledge with action; utmost sincerity and selflessness

**Openness**
Inclusiveness and acceptance; proactive introspection; proactive exploration; challenging the unknown; altruistic intentions; altruistic actions

## THE BOARD

### Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day to day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established four Board committees including the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic and Investment Committee. The Board has delegated to these Board committees responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against the Directors, and will conduct annual review on such insurance coverage.

### Board Composition

During the Reporting Period, the Board comprised three executive Directors, one non-executive Director and four independent non-executive Directors.

#### Executive Directors

Mr. Ni *(Chairman)*
Ms. Hu
Mr. Chen Guosheng

#### Non-executive Director

Mr. David Ross Dingman (alias Mr. David R. Dingman) *(resigned on March 18, 2024)*

#### Independent Non-executive Directors

Mr. Wu Xiaoya
Mr. Peng Haitao
Mr. Liu Bobin
Mr. Chan Chi Fung Leo

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

Save as disclosed in the biographical details of the Directors and senior management as set out in the section headed "Directors and Senior Management" of this annual report, none of the chairman, Directors and senior management has any relationship (including financial, business, family or other material/relevant relationships) with any other Directors or chief executive.

From the Listing Date to the date of this annual report, the Board has met the requirements of Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one possessing appropriate professional qualifications or accounting or related financial management expertise.

From the Listing Date to the date of this annual report, the Company has also complied with Rule 3.10A of the Listing Rules, which relates to the appointment of independent non-executive Directors representing one-third of the Board.

Mr. Chan Chi Fung Leo has been appointed as an independent non-executive Director during the year ended December 31, 2023. Mr. Chan Chi Fung Leo and all other Directors including but without limitation, Mr. David Ross Dingman who resigned with effect from March 18, 2024, obtained the legal opinions referred to in Rule 3.09D of the Listing Rules on October 26, 2022, November 14, 2022, or June 15, 2023, before the commencement of trading in the Shares on the Stock Exchange, and confirmed that they understood their duties as Directors.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic and Investment Committee.

As code provision C.1.5 of the CG Code requires directors to disclose the number and nature of offices held in public companies or organizations and other significant commitments as well as the identity and the time involved in public companies or organizations to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

## Board Diversity Policy

The Board has adopted a board diversity policy (the "**Board Diversity Policy**"), which sets out the approach adopted by the Board regarding diversity of Board members. The Board strives to ensure that it has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and in order for the Board to be effective.

The Nomination Committee, appointed by the Board, is responsible for adhering to relevant guidelines of governing board diversity under the CG Code. The Nomination Committee will review the Board Diversity Policy on an annual basis to ensure its continued effectiveness. In designing the Board's composition, Board diversity has been considered from a number of perspectives, including but not limited to gender, skills, age, cultural and educational background, industry experience, technical and professional experience and/or qualifications, knowledge, ethnicity, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. As of the date of this Annual Report, the Board comprises one female member and six male members, including three executive directors and four independent non-executive directors. The Directors come from diverse cultural and education backgrounds. They hold various professional degrees, including engineering, power system and automation, arts, law, finance, and business management. Their combined experience is balanced, including product development, overall management and strategic development, business and risk management, as well as financial and accounting expertise. The age of the Directors ranges from 45 to 65 years, providing a balanced mix of perspectives to the Board. The Company will take measures to promote gender diversity at all levels, including the Board and senior management. While the Group acknowledges that male directors currently dominate the Board, and there is room for improvement in gender diversity at the Board level, the Group will continue to adhere to the principle of appointing individuals based on merit, in line with its overall diversity policy. Especially considering the evolving nature of the Group's business needs and the changes that may impact the Group's business plans from time to time, the Group will actively seek qualified female candidates to join the Board. The Board has set measurable objectives, aiming to have two female Directors or female representatives comprising 20% of the Board to further enhance Board diversity. This measurable target will be achieved through a resolution to appoint Ms. Ni Boyuan, a senior management member of the Company, as a director, to be proposed at the AGM to be held in June 2024. In the long term, to further ensure gender diversity on the Board, the Group will periodically identify several female candidates with diverse skills, experiences, and knowledge in different fields. A list of qualified female candidates eligible for Board membership will be maintained to cultivate potential successor members of the Board. The Board and the Nomination Committee will evaluate the composition of the Board annually in accordance with Appendix C1 of the Listing Rules. The Group is also committed to adopting similar policies to promote diversity among the Company's management team, including but not limited to the senior management, to further enhance the effectiveness of corporate governance. Looking ahead and focusing on nurturing potential successor members of the Board to meet the aforementioned gender diversity targets, the Group will (i) adhere to the principle of appointing based on merit while considering overall Board diversity; (ii) take measures to promote gender diversity at all levels of the Group by recruiting employees of different genders; (iii) consider the possibility of nominating female executives with necessary skills and experience to join the Board; and (iv) provide career development opportunities and more resources for training female employees, aiming to elevate them to senior management or Board members. This aims to ensure that the Group has a pool of potential female senior executives and Board members within the next few years.

As of December 31, 2023, the proportion of female and male employees (including senior management) in the Group was approximately 35% and 65%, respectively. The Company believes that its workforce has achieved gender diversity in general. The Group promotes gender diversity in the workplace and is committed to increasing the proportion of female employees at various levels, including promoting this goal during recruitment. To achieve workforce diversity, the Group has implemented appropriate recruitment and selection processes to consider diverse candidates. The Group has also established talent management and training programs, providing career development guidance and advancement opportunities, aimed at building a team with diverse skills and rich experience. The Company considers that the gender diversity across overall workforce (including Senior Management of the Company) stands at a reasonable level as the machinery manufacturing industry is widely considered to be a male-dominated profession. The Company will continue to review the gender diversity from time to time and take necessary steps to promote diversity.

Therefore, the Board believes that, based on a merit-based Director appointment system, the composition of the Board aligns with the Board Diversity Policy.

For the year ended December 31, 2023, the Nomination Committee has reviewed the implementation and effectiveness of the Board Diversity Policy and has confirmed that the Board possesses an appropriate mix of skills and experience to execute the Company's strategy.

## Mechanisms ensuring independent perspectives and opinions are available

In order to implement mechanisms to ensure that independent perspectives and opinions are available to the Board, the Board has appointed four independent non-executive directors in compliance with Rule 3.10 and Rule 3.10A of the Listing Rules. Rules 3.10 and 3.10A of the Listing Rules stipulate that the Board must have at least three independent non-executive directors, and the independent non-executive directors appointed should represent at least one-third of the Board. Additionally, at least one independent non-executive director has been appointed as member or chairman to each Board committee to the extent possible to ensure the Board receives independent opinions.

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

The Board believes that the independence of the Board is crucial for good corporate governance. The Company has established mechanisms to ensure a strong independent element on, and independent views and input are available to, the Board. A summary of these mechanisms is as follows:

- **Composition of the Board and Board Committees**

  The Board endeavours to ensure the appointment of at least three independent non-executive Directors and at least one-third of the Board members being independent non-executive Directors (or a higher threshold as may be required by the Listing Rules from time to time).

  In addition to complying with the Listing Rules regarding the composition of certain Board committees, independent non-executive Directors will be appointed to other Board committees as far as practicable to ensure independent views are available.

- **Independence Assessment**

  The Nomination Committee must strictly adhere to the nomination policy set out in the section headed "Corporate Governance Report — Board Committees — Nomination Committee" in this Annual Report, as well as the independence assessment criteria as set out in the Listing Rules with regard to the nomination and appointment of independent non-executive Directors.

  Each independent non-executive Director is also required to inform the Company as soon as practicable if there is any change in his own personal particulars that may materially affect his independence.

  The Nomination Committee is mandated to annually assess the independence of all independent non-executive Directors with reference to the independence criteria set out in the Listing Rules, ensuring that they can continually exercise independent judgment.

- **Board Decision-making**

  Independent non-executive Directors (as other Directors) are entitled to seek further information and documentation from the management on the matters to be discussed at Board meetings. They may also seek assistance from the Company Secretary and, if necessary, seek independent advice from external professional advisors, at the Company's expense.

  Independent non-executive Directors (as other Directors) shall not vote or be counted in the quorum on Board resolution approving any contract or arrangement in which such Director or any of their close associates have a material interest.

  The chairman of the Board shall at least annually hold meetings with the independent non-executive Directors without the presence of other Directors to discuss major issues and any concerns.

- **Compensation**

  No equity-based remuneration (e.g. share options or grants) with performance-related elements will be granted to independent non-executive Directors as this may lead to bias in their decision-making and compromise their objectivity and independence.

The Board has conducted an annual review of the implementation of the above mechanisms and considered the implementation satisfactory.

For the year ended December 31, 2023, the Company has reviewed the implementation and effectiveness of these mechanisms and considered them effective and adequate.

## Induction and Continuous Professional Trainings

Each newly appointed Director has received necessary induction and information to ensure they have a thorough understanding of the Company's operations, business, as well as the duties prescribed by relevant statutes, laws, regulations, and rules. The Company also regularly holds seminars to provide directors with the latest developments and changes in the Listing Rules and other relevant laws and regulatory requirements. Directors also receive regular updates on the Company's performance, status, and prospects to ensure that each director and the Board as a whole can fulfill their duties.

Based on the information provided by Directors, the summary of training received by Directors for the year ended December 31, 2023 is as follows:

| Name of Directors | Nature of Continuous Professional Trainings |
|---|---|
| **Executive Directors** | |
| Mr. Ni | A, B, C |
| Ms. Hu | A, B, C |
| Mr. Chen Guosheng | A, B, C |
| **Non-executive Director** | |
| Mr. David Ross Dingman *(resigned on March 18, 2024)* | A, C |
| **Independent Non-executive Directors** | |
| Mr. Wu Xiaoya | A, B, C |
| Mr. Peng Haitao | C |
| Mr. Liu Bobin | A, C |
| Mr. Chan Chi Fung Leo | A, B |

Note:

A: Attending seminars and/or meetings and/or forums and/or briefing sessions

B: Attending training sessions conducted by legal advisers related to the Company's business

C: Reading materials on corporate governance, Directors' duties and responsibilities, Listing Rules, and other relevant regulations.

## Chairman and Chief Executive

The chairman of the Board and the chief executive officer ("**CEO**") of the Company are currently two separate positions held by Mr. Ni and Ms. Hu, respectively, with clearly defined responsibilities. The chairman of the Board is responsible for formulating the Group's development strategies and overseeing its management and research, while the CEO is responsible for the overall management and operation of the Group.

## Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company on September 24, 2023, and the Company have also issued letters of appointment to the non-executive Director and each of the independent non-executive Directors. The service contracts with each of the executive Directors and the letters of appointment with the non-executive Director and each of the independent non-executive Directors are for an initial fixed term of three years commencing from September 24, 2023 subject to rotation and re-election in accordance with the Articles of Association and the Listing Rules. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

According to Article 26.3 of the Articles of Association, Directors may appoint any person as a Director to fill a vacancy or as an additional Director, provided that such appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles of Association as the maximum number of Directors. Any Director appointed in this manner shall hold office only until the first annual general meeting of the Company after his/her appointment, at which time he/she will be eligible for re-election.

According to Article 26.4 of the Articles of Association, at each annual general meeting of the Company, one-third of the Directors in office (or, if the number of Directors is not a multiple of three, then the number closest to but not less than one-third of the Directors) must retire by rotation, but each Director (including those appointed for a specific term) must retire by rotation at least once every three years. Any Director required to retire for re-election under Article 26.3 of the Articles of Association shall not be counted in determining the number of Directors and shall retire by rotation. The term of office of a retiring Director shall continue until the end of the meeting (where they retire and are eligible for re-election at that meeting).

## Board Meetings

The Company has adopted a practice to convene Board meetings regularly which is at least four meetings per year and roughly on a quarterly basis. A notice of a regular Board meeting shall be delivered to all the Directors at least 14 days before the meeting to allow all Directors to attend and include agenda items within the routine meeting agenda.

For other Board and Board committee meetings, reasonable notice is generally served. Agendas or relevant documents of the Board shall be despatched to the Directors or members of the Board committees at least three days prior to the convening of the meetings to ensure that they have sufficient time to review the relevant documents and be adequately prepared for the meetings. When Directors or Board committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman of the Board or Board committees prior to the meeting. The meeting minutes are kept by the joint company secretary and the copies are sent to all Directors for reference and record purpose.

The minutes of the meetings of the Board and Board committees thoroughly record all significant matters under consideration and decisions made, including any questions raised by the Directors. Draft minutes of each Board meeting and Board committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. The minutes of the Board meetings are available for Directors to review.

According to Code Provision C.5.1 of the CG Code, the Board of Directors should hold regular meetings, with Board meetings being convened at least four times a year, approximately quarterly, and with active participation by a majority of Directors either in person or via electronic communication. Except one Audit Committee meeting was held by the Company, there were no Board meetings, committee meetings, or general meetings held from the Listing Date until December 31, 2023 as the Company was only listed on the Stock Exchange on October 12, 2023. From December 31, 2023, until the date of this annual report, the Audit Committee, Nomination Committee, Remuneration Committee, Strategic and Investment Committee, and the Board have held meetings to review and approve the financial statements for the year ended December 31, 2023. In accordance with Code Provision C.5.1 of the CG Code, the Company expects to holding at least four regular Board meetings approximately quarterly in each financial year.

Since the Listing Date until the date of this annual report, the attendance records of Directors at Board meetings, Board committee meetings, and general meetings are summarized as follows:

| Directors | Board Meetings | Audit Committee Meetings | Nomination Committee Meetings | Remuneration Committee Meetings | Strategic and Investment Committee Meetings | General Meetings |
|---|---|---|---|---|---|---|
| **No. of meetings held** | 1 | 2 | 1 | 1 | 1 | 0 |
| | | | No. of meetings attended/held | | | |
| **Executive Directors** | | | | | | |
| Mr. Ni | 1/1 | – | – | – | 1/1 | 0 |
| Ms. Hu | 1/1 | – | 1/1 | 1/1 | 1/1 | 0 |
| Mr. Chen Guosheng | 1/1 | – | – | – | – | 0 |
| **Non-executive Director** | | | | | | |
| Mr. David Ross Dingman *(resigned on March 18, 2024)* | – | – | – | – | – | 0 |
| **Independent Non-executive Directors** | | | | | | |
| Mr. Wu Xiaoya | 1/1 | 2/2 | 1/1 | 1/1 | – | 0 |
| Mr. Peng Haitao | 1/1 | 2/2 | – | – | 1/1 | 0 |
| Mr. Liu Bobin | 1/1 | 2/2 | 1/1 | 1/1 | – | 0 |
| Mr. Chan Chi Fung Leo *(appointed on June 19, 2023)* | 1/1 | – | – | – | – | 0 |

Since the Listing Date until the date of this annual report, the chairman of the Board has convened meetings with independent non-executive Directors in the absence of other Directors.

## Model Code For Securities Transactions

The Company has adopted the Model Code as set out in Appendix C3 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the Model Code since the Listing Date to December 31, 2023.

Regarding securities transactions by relevant employees of the Company who may have access to inside information about the Company's securities as referred to in Code Provision C.1.3 of CG code, the Company has also formulated written guidelines ("**Guidelines**") that are no less stringent than the provisions of the Model Code. From the Listing Date to December 31, 2023, having made reasonable inquiries, the Company is not aware of any incidents of non-compliance with the Guidelines by any relevant employees of the Company.

## Board Authorization

The Board retains decision-making authority over all significant matters concerning the Company, including: approval and oversight of all policy matters, overall strategy and budget, internal controls and risk management systems, significant transactions (especially those involving potential conflicts of interest), financial information, board appointments, and other significant financial and operational matters. Directors may seek independent professional advice in carrying out their duties, at the Company's expense, and are encouraged to engage and consult independently with senior management of the Company.

Day to day management, administration, and operations of the Group are delegated to senior management. The Board regularly reviews the delegated functions and responsibilities. Approval from the Board is required before any significant transactions are undertaken by the Company's management.

## Corporate Governance Function

The Board is responsible for performing the functions set out in code provision A.2.1 of the CG Code, including:

1. reviewing and overseeing the Company's compliance with legal and regulatory requirements, policies, and practices;

2. reviewing and overseeing the training and continuous professional trainings of Directors and senior management;

3. formulating, reviewing, and overseeing codes of conduct and compliance manuals applicable to employees and Directors;

4. formulating and reviewing the Company's corporate governance policies and practices and making recommendations to the Board;

5. reviewing the Company's compliance with corporate governance principles and disclosures in corporate governance reports; and

6. reviewing and overseeing the Company's compliance with its whistleblowing policy.

During the period commencing from the Listing Date and ended on December 31, 2023, the Board had reviewed the Company's corporate governance policies and practices, the training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance with the Model Code and the Guidelines governing the securities transactions by relevant employees of the Company who may have access to inside information about the Company's securities, and the Company's compliance with the CG Code and the disclosure in this Corporate Governance Report.

## BOARD COMMITTEES

### Audit Committee

The Audit Committee consists of three members, chaired by Mr. Wu Xiaoya, an independent non-executive Director possessing appropriate professional qualifications as required by Rules 3.10(2) and 3.21 of the Listing Rules. The other members are Mr. Liu Bobin and Mr. Peng Haitao, both independent non-executive Directors.

The primary duties, roles, and functions of the Audit Committee include, but are not limited to:

1. be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

2. monitor the integrity of the Company's financial statements and annual report and accounts, interim report and, if prepared for publication, quarterly reports, and review the significant financial reporting judgments contained in them before submission to the Board;

3. reviewing the Company's financial controls, and unless expressly addressed by a separate Board risk committee, or by the Board itself, review the Company's risk management and internal control systems (including without limitation the procedures for compliance with the requirements of Listing Rules);

4. discussing the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function; and

5. fulfilling any other duties and responsibilities assigned by the Board.

The written terms of reference of the Audit Committee can be found on the websites of the Stock Exchange and the Company.

Since the Listing Date up to December 31, 2023, the Audit Committee held one meeting to discuss and consider the audit planning for the consolidated financial statements of the Group for the year ended December 31, 2023. On March 28, 2024, the Audit Committee held a meeting to review and discuss the following matters:

1. the annual results of the Group for the year ended December 31, 2023 as well as the audit report prepared by the external auditor relating to accounting issues and major findings in course of audit;

2. the financial reporting system and the effectiveness of the risk management and internal control systems of the Group;

3. the effectiveness and implementation of the whistleblowing policy; and

4. the re-appointment of external auditor of the Company, its independence and qualification. The Audit Committee also reviewed and approved the remuneration and terms of engagement of the external auditor and made relevant recommendation to the Board.

## Nomination Committee

The Nomination Committee consists of three members, chaired by Mr. Liu Bobin, an independent non-executive Director. The other members are Ms. Hu, an executive Director and Mr. Wu Xiaoya, an independent non-executive Director.

The primary duties, roles, and functions of the Nomination Committee include the following:

1. review the structure, size, and composition of the Board at least annually, including skills, knowledge, and experience, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. formulate a policy of selection and nomination of Directors and the procedures for sourcing of suitably qualified Directors for consideration by the Board, and implement such plans and procedures approved;

3. identify individuals suitably qualified to become members of the Board, select or make recommendations to the Board on the selection of individuals nominated for directorships;

4. ensure sufficient biographical details of nominated candidate are provided to the Board and Shareholders to enable them to make a decision regarding selection of Board members;

5. assess the independence of independent non-executive Directors;

6. make recommendations to the Board regarding the appointment or re-appointment of Directors and succession planning for Directors, particularly the chairman of the Board and chief executive of the Company; and

7. conform to and abide by any requirement, direction and regulations that may be prescribed by the Board or contained in the constitutional documents of the Company or imposed by the Listing Rules or applicable laws.

The written terms of reference of the Nomination Committee are available for reference on the Stock Exchange and the Company's website.

As the Shares have only been listed on the Stock Exchange since the Listing Date, the Nomination Committee did not hold any meeting during the period commencing from the Listing Date up to December 31, 2023. On March 28, 2024, the Nomination Committee held a meeting to review and consider the following matters:

1. re-election of the Directors;

2. evaluation of the independence of the independent non-executive Directors;

3. the structure, size and composition of the Board;

4. nomination of an executive Director for election at the AGM;

5. the Board Diversity Policy and its implementation; and

6. the Director Nomination Policy (as defined below) and its implementation.

The Company has adopted a director nomination policy ("**Director Nomination Policy**"), which sets out the selection criteria and procedures for nominating and appointing new Directors. The Nomination Committee and/or the Board may select Director candidates through various channels, including but not limited to internal promotions, transfers, recommendations from other members of management, and external recruitment agencies. Upon receiving recommendations for new Director appointments and the resumes (or relevant details) of candidates, the Nomination Committee and/or the Board will evaluate the candidate based on the following criteria: (a) characters, including integrity, honesty, and fairness; (b) backgrounds and qualifications, including professional qualifications, skills, knowledge, and experience relevant to the Company's business operations and corporate strategy; (c) commitment to understanding the Company and its industry, willingness to devote adequate time to discharge duties as a Board member and abilities to assist the Board in fulfilling its responsibilities; (d) under the Listing Rules, the Board must have a sufficient number of independent non-executive Directors, and the independence of candidates will be assessed; (e) the Company's Board Diversity Policy, and any measurable objectives adopted by the Nomination Committee to achieve board diversity. Diversity of the Board will be considered from various perspectives, including but not limited to gender, skills, age, cultural and educational background, industry experience, technical and professional expertise and/or qualifications, knowledge, ethnicity, length of service and time to be devoted as a Director; and (f) other factors related to the Company's business model and specific needs from time to time, as well as the contributions the selected candidates will bring to the Board. Regarding potential new Director candidates who preliminarily meet the selection criteria, the Nomination Committee will recommend suitable Director candidates to the Board for appointment. For any individuals nominated by shareholders for election as Directors at the Company's general meeting, the Nomination Committee and/or the Board will assess the candidate based on the above circumstances to determine their eligibility to serve as a Director. In appropriate cases, the Nomination Committee and/or the Board should make recommendations to shareholders regarding Directors proposed for election at the Company's general meeting.

The Nomination Committee will review the Director Nomination Policy from time to time to ensure its effectiveness.

## Remuneration Committee

The Remuneration Committee consists of three members, chaired by Mr. Liu Bobin, an independent non-executive Director. The other members are Ms. Hu, an executive Director and Mr. Wu Xiaoya, an independent non-executive Director.

The primary duties, roles, and functions of the Remuneration Committee include the following:

1. make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. determine the policy for the remuneration of executive Directors, assess performance of executive Directors, and approve the terms of executive Directors' service contracts;

3. review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

   either:

   (i) determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management; or

   (ii) make recommendations to the Board on the remuneration packages of individual executive Directors and senior management.

   This should include share options/awards, benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. make recommendations to the Board on the remuneration of non-executive Directors;

5. consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

7. review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

8. ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration;

9. review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules; and

10. consider other topics as defined or directed by the Board.

The written terms of reference of the Remuneration Committee are available for reference on the Stock Exchange and the Company's website.

As the Shares have only been listed on the Stock Exchange since the Listing Date, the Remuneration Committee did not hold any meeting during the period commencing from the Listing Date up to December 31, 2023. On March 28, 2024, the Remuneration Committee held a meeting where it:

1. reviewed the remuneration policy and structure for the Directors and senior management of the Company;

2. reviewed and made recommendations to the Board on the remuneration packages of the executive Directors (including the executive Director candidate), independent non-executive Directors and the senior management of the Company; and

3. reviewed the Pre-IPO share scheme and Post-IPO share scheme and their implementation.

## Strategic and Investment Committee

The Strategic and Investment Committee consists of three members, chaired by Mr. Ni, an executive Director. The other members are Ms. Hu, an executive Director and Mr. Peng Haitao, an independent non-executive Director.

The primary duties, roles, and functions of the Strategic and Investment Committee include the following:

1. review the development strategies of the Company and make recommendations on any proposed changes to the Board to complement the Company's development strategy;

2. review the annual investment plans formulated by the Company;

3. review and make decisions on the prospective major investments, including disposals and new joint ventures, within the authorities delegated by the Board;

4. review the project assessment system established by the Company, mainly including three major constituents, namely, effective assessment agencies and professionals, a complete assessment process and reasonable assessment standards;

5. examine the investment strategies of the Company;

6. examine the investment management risk policies;

7. research the Group's capital policies and major financing plans;

8. authorize the strategic and investment management department of the Company to be responsible for execution of the identified strategies and specific implementation of the investment matters;

9. any other duties assigned by the Board; and

10. conform to and abide by any requirement, direction and regulation that may be prescribed by the Board or contained in the constitutional documents of the Company or imposed by the Listing Rules or applicable laws.

The written terms of reference of the Strategic and Investment Committee are available for reference on the Stock Exchange's and the Company's websites.

As the Shares have only been listed on the Stock Exchange since the Listing Date, the Strategic and Investment Committee did not hold any meeting during the period commencing from the Listing Date up to December 31, 2023. On March 28, 2024, the Strategic and Investment Committee held a meeting to review and consider the development strategies of the Company and authorize the strategic investment department of the Company to be responsible for the execution of the formulated strategies and the implementation of any investment.

## EMOLUMENT POLICY OF DIRECTORS

The remuneration package for Directors includes annual Director fees, performance bonuses, allowances, retirement plans contributions, and any share awards, options, or other tangible benefits that Directors may be entitled to under the Pre-IPO Share Scheme and Post-IPO Share Scheme. The emolument policy sets out the principles for determining the individual director's remuneration package. According to the policy, Director's remuneration must be approved by the Board upon the recommendation of the Remuneration Committee before it can be implemented.

## DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2023 which give a true and fair view of the affairs of the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Group's financial statements, which are put to the Board for approval. The Company provides all members of the Board with monthly updates on Group's performance, positions and prospects.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the Auditor regarding its reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report from pages 140 to 144 of this annual report.

## DIVIDEND POLICY

The Company has adopted a dividend policy. The decision to pay dividends will be made at the discretion of the Directors, subject to compliance with the Articles of Association, Listing Rules, and all applicable laws and regulations, and will depend on factors including financial results, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of shareholder, any restrictions on payments of dividends, and any other factors that the Board may consider relevant. The Company does not have a pre-determined dividend payout ratio and will review the dividend policy as appropriate from time to time with reference to financial conditions and the prevailing economic environment.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility to maintain and oversee the risk management and internal control systems of the Group on an ongoing basis, continuously review their effectiveness to safeguard Shareholders' investments and the Company's assets. The Board ensures an annual review of the effectiveness of these systems within the Group. The Company's risk management and internal control systems have the main features of providing a comprehensive and organized structure with clearly defined scopes of responsibilities, authorities and procedures. The Audit Committee supports the Board to oversee the effectiveness of the risk management system on an ongoing basis.

The Company has a designated risk management and internal control team which is responsible for identifying and monitoring the Company's risks and internal control issues and reports directly to the Board of any findings and follow-up actions. Risks and internal control issues are identified through close watch of regulatory environment, market conditions and issues or matters concerning competitors or other industry participants. All departments of the Company are required to adhere to the Company's internal control procedures and report to the team of any risks or internal control issues. Once any potential risk or internal control issue is identified, a cross department meeting will be held to address such issue and to the extent necessary, new policies will be established to manage such risk. The risk management and internal control system described above are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group's internal audit department plays a vital role in monitoring the internal governance of the company. The primary role of the Company's internal audit department is to review the financial condition and internal controls of the Company, conducting comprehensive audits of all affiliates and subsidiaries regularly. It also conducts analysis and independent appraisals of the adequacy and effectiveness of the Company's risk management and internal control systems.

The Company has put in place an internal policy for the handling and disclosure of inside information. The internal policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management and relevant employees a general guide in monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Board has reviewed the effectiveness of the Group's risk management and internal control systems, including the financial, operational and compliance controls, for the year ended December 31, 2023. The annual review by the Board also covered areas on the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions and those relating to the Company's ESG performance and reporting. The Board considered that the Group's risk management and internal control systems are effective and adequate.

## ANTI-CORRUPTION POLICY

The Group is committed to achieving the highest standards of business conduct and adopts a zero-tolerance approach towards corruption and related malpractice. The Company values integrity and transparency and ensures that the Board and senior management team exemplify these values through their actions.

The Company has adopted an anti-corruption policy to promote an ethical culture, ensure compliance with ethical standards associated with the Group's business, and applicable anti-corruption laws, and to prevent any payments or other acts that may lead to corruption risk. The Company encourages its business partners with whom it conducts business to develop and implement anti-corruption policies of the same standard.

## WHISTLEBLOWING POLICY

The Company has established a whistleblowing policy ("**Whistleblowing Policy**"), which provides reporting channels and guidance for employees and other independent third parties who deal with the Group (such as customers, service providers, distributors, and suppliers) to report anonymously improper activities, misconduct, or any violation of rules, regulations or laws related to fraud against Shareholders. The policy allows for anonymous reporting of such matters within the Group, and assures whistleblowers that the Group will provide them with protection to prevent unfair dismissal or harm due to any genuine reports made under the Whistleblowing Policy.

## AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the auditor to the Group for the year ended December 31, 2023 was approximately as follows:

| Type of services | Amount (RMB'000) |
|---|---|
| Audit services | 2,424 |
| Non-audit services (Include tax filing service) | 350 |
| Total | 2,774 |

## JOINT COMPANY SECRETARIES

Mr. Chen Guosheng ("**Mr. Chen**"), executive Director and chief financial officer, also serves as the joint company secretary of the Company. He is responsible for providing advice to the Board on corporate governance matters and ensuring compliance with the Board's policies and procedures, as well as applicable laws, rules and regulations.

To maintain good corporate governance and ensure compliance with the Listing Rules and applicable laws in Hong Kong, the Company has also appointed Ms. Chu Cheuk Ting ("**Ms. Chu**"), a manager of the listing services department of TMF Hong Kong Limited, as another joint company secretary of the Company. She assists Mr. Chen in fulfilling his duties as the Company's company secretary, her main contact person at the Company being Mr. Chen.

For the year ended December 31, 2023, both Mr. Chen and Ms. Chu have completed not less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

## COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company believes that effective communication with Shareholders is crucial for enhancing investor relations and ensuring that Shareholders understand the Group's business, performance, and strategies. The Company also recognizes the importance of timely and non-selective disclosure of Company information to enable Shareholders and investors to make informed investment decisions.

The Company's annual general meeting will provide an opportunity for Shareholders to communicate directly with the Directors. Board members, in particular, the chairmen of the various Board committees or their delegates and appropriate senior executives of the Company will attend the annual general meeting to address Shareholders' queries. The external auditors will also attend the annual general meeting to answer questions regarding audit procedures, the preparation and content of auditor reports, accounting policies, and auditor independence.

To facilitate communication between the Company, Shareholders, and the investors, the Company regularly holds performance briefings, meetings, and non-deal roadshows with Shareholders, potential investors, and analysts. Directors and employees of the Company engaging with investors, analysts, media, or other interested parties must adhere to disclosure obligations and regulations under the Listing Rules and applicable laws and regulations.

## SHAREHOLDER'S COMMUNICATION POLICY

To facilitate effective communication, the Company has adopted a shareholder's communication policy (the "**Shareholder's Communication Policy**") aimed at establishing mutual relations and communication between the Company and Shareholders. The Company has also established an "Investor Relations" section on the Company's website (https://www.luyuan.cn), where the corporate information, such as corporate communications of the Group, information on corporate governance of the Group as well as the compositions and functions of the Board and the Board committees are available for public access. Information published on the Stock Exchange's website (www.hkexnews.hk) is promptly mirrored on the Company's website. Such information includes but is not limited to annual reports, interim reports, quarterly reports (if any), announcements, circulars, notices of general meetings, and any other information required to be published under the Listing Rules.

For the year ended December 31, 2023, the Company has reviewed the implementation and effectiveness of its Shareholder's Communication Policy. The Company believes that its Shareholder's Communication Policy promotes full Shareholder communication and considers the policy to be effective and adequate.

## SHAREHOLDER'S RIGHTS

To safeguard shareholders' interests and rights, a separate resolution is proposed for each issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

## CONVENING OF EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

According to Article 17 of the Company's Articles of Association, Shareholders may submit proposals for consideration at the Company's general meetings. Any Shareholder or Shareholders holding not less than 10% of the voting rights of the issued Shares eligible to vote at the general meeting on the basis of one vote per share on the day of submission of the request shall have the right to submit a written request to the Company's principal office in Hong Kong, 31/F., Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong (or if the Company ceases to have such a principal office, then to the Company's principal office at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands) requesting the convening of a extraordinary general meeting and proposing transactions on any matters specified in the request. The Directors shall convene the extraordinary general meeting of the Company within 21 days from the date of submission of the request. If there are no Directors on the day the request is submitted or if the Board does not within 21 days from the date of submission of the request duly proceed to convene a general meeting to be held within a further 21 days, the person(s) making the request or any of them representing more than half of the total voting rights of the person(s) making the request may convene a general meeting in the same manner as nearly as possible as that in which general meetings are to be convened by Directors. However, any meeting convened in this manner shall not be held later than the day which falls three months after the said 21 day period, and the Company shall reimburse all reasonable expenses incurred by the requestor(s) due to the board's failure to convene the meeting.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

## PUTTING FORWARD ENQUIRIES TO THE BOARD

Shareholders putting forward enquiries to the Board regarding the company can send their enquiries to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (Email address: HKSRS_Team8@hk.tricorglobal.com). Shareholders may request public information about the Company at any time.

## CHANGES IN CONSTITUTIONAL DOCUMENTS

The Company adopted the revised and restated Memorandum and Articles of Association on August 21, 2023, which came into effect from the Listing Date. There were no changes in the above Memorandum and Articles of Association since the Listing Date up to the date of this report.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 1. ABOUT THIS REPORT

Luyuan Group Holding (Cayman) Limited (the "**Company**" or "**Company**") and its subsidiaries ("**Luyuan Group**", the "**Group**", or "**We**") are pleased to present the first Environmental, Social and Governance ("**ESG**") Report (this "**Report**"). This Report aims to transparently disclose the Group's progress and achievements in the ESG domain for the period from January 1 to December 31, 2023 (the "**Reporting Period**"), and to demonstrate the Group's vision for sustainable development to all stakeholders, thereby enhancing their understanding and confidence in us.

### 1.1 Reporting Boundary

Unless otherwise stated, the reporting boundary of this report covers the Company and its subsidiaries during the Reporting Period, including the principal office buildings, product research and development center, and Zhejiang plant located at the headquarters in Zhejiang, as well as two production plants in Shandong and Guangxi.

### 1.2 Reporting Guidelines and Principles

The Group prepared the Report in accordance with the Environmental, Social and Governance Reporting Guide (the "**Guide**") as set out in Appendix C2 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). The Report has complied with the "Comply or Explain" provisions contained in the Guide and followed the four reporting principles of materiality, quantitative, balance and consistency as the basis of preparation.

**Materiality Principle:** Stakeholder communication and materiality assessment have been incorporated into the preparation of this Report as a basis for identifying material ESG issues. For details please refer to the chapter headed "Materiality Assessment".

**Quantitative Principle:** The Report presents environmental and social KPIs in the form of quantitative data, accompanied by explanations to illustrate their purposes and impacts. We also provide comparative data on environmental KPIs in this Report.

**Balance Principle:** This Report follows the principle of balance and presents both positive and negative information of the Group in an impartial manner, and continuously reviewing areas for improvement.

**Consistency Principle:** This report follows a consistent methodology and further refines certain disclosure categories corresponding to the ESG reporting guidelines of the Hong Kong Stock Exchange. The Group will ensure that the disclosure boundary and reporting methodology of this ESG Report remain generally consistent on an annual basis.

### 1.3 Access to this Report

This report is available for viewing and download on the website of The Stock Exchange of Hong Kong Limited's "HKEXnews" (www.hkexnews.hk) and the Luyuan Group (www.luyuan.cn).

## 1.4 Opinion and Feedback

Your valuable opinion is our driving force for continuous improvement. If you have any opinion on this report or any related matters, please contact us through the following channels:

Telephone: +86 4008877505
Website: www.luyuan.cn
Email: server@luyuan.cn

## 1.5 Statement from the Board

Luyuan Group regards ESG and sustainable development principles as safeguards for the Company's long-term steady development. ESG factors are integrated into decision-making and daily operations to continuously enhance the Company's resilience to risks. The Board of Directors of the Group is the highest authority and decision-making body for ESG matters, bearing ultimate responsibility for the Company's ESG strategy and reporting. It oversees ESG-related issues that may impact the Company's business or operations, as well as Shareholders and other stakeholders. Under the Board, there is an ESG Working Committee responsible for identifying and assessing ESG risks relevant to the Group. It ensures the establishment of appropriate and effective ESG risk management and internal control systems and reports progress on related ESG goals to the Board and conducts reviews accordingly.

The Group values the suggestions and opinions of all stakeholders, ensuring adequate channels for communication and engagement with key stakeholders, to discuss and identify the important ESG issues and potential ESG risks, leading to continuous improvement of ESG-related strategies and policies systems. The Board has reviewed material ESG issues for the reporting year and has approved adjustments to the materiality levels of various ESG issues, in a bid to ensure the timeliness and rationality of the material issue matrix.

The Board holds regular meetings to approve the Company's sustainable development goals and assess and review our ESG-related goals to ensure alignment with our overall business strategies and development. Through the guidance and oversight of the ESG Working Group, the Board monitors the development and implementation of the company's ESG vision, strategies, and framework, reviews important ESG issues, key ESG risks and opportunities, oversees communication channels and methods with Shareholders and reviews the company's ESG-related disclosures.

The Board and all Directors ensure that the contents of this Report contain no false statements, misleading statements, or material omissions, and take responsibility for the truthfulness, accuracy, and completeness of this Report. This Report provides detailed disclosure of the progress and achievements of the Group's ESG work in 2023, reviewed by Audit Committee, and approved at the Board meeting.

## 2. ABOUT LUYUAN GROUP

Luyuan Group corporated in 2003, headquarters is located in Zhejiang Province, is an electric two-wheeled vehicle provider in mainland China, focusing on the design, research and development, manufacturing and selling of electric two-wheeled vehicles. We have built an offline sales and distribution network and embraced informatization and established online retail channels, continuously improving the penetration and coverage of our products. As of December 31, 2023, we had over 1,400 distributors covering over 324 cities of 30 provincial-level administrative regions. We attach great importance to upgrading our products and developing relevant technologies. Our core technologies cover key components of electric two-wheeled vehicles such as motors, controllers, batteries and chargers. Technological development and progress have significantly improved the service life and safety level of our electric two-wheeled vehicles. In terms of technological research and development, we focused on areas with strong growth potential such as lithium-ion battery safety and electric two-wheeled vehicles with smart functions. Through our continuous investment in upgrading our production equipment, we strive to bring products with controllable product quality to consumers to further improve our brand image, while maintaining our scale advantage.

### 2.1 Corporate Honors

**First in China for the Number of Independent Invention Patents**
**First in the Market for Product Consumer Quality Satisfaction**

By world-renowned growth consulting firm Frost & Sullivan

**First prize in the State Science Invention Award**

China National Light Industry Council

**Gold award in the China Bicycle Electric Bicycle Design Competition**

Chinese Cycling Association

**Luyuan High-Speed Electric motorcycles S70-S won the honour of Top Ten Excellent Digital Smart Products**

18th China Small and Medium Enterprises Fair

**"2023 Annual Innovative Agricultural Assistance Public Welfare Model" award**

4th Byte New Digital Intelligence Service Conference 2023

**Supporting Education and Promoting Farming Compassionate Enterprise**

Daxi Town Government

**2023 Guangxi Green Manufacturing Green Factory**

Department of Industry and Information Technology of Guangxi Zhuang Autonomous Region

**The first batch of provincial-level green product certification "Pioneer"**

Zhejiang Provincial Market Supervision Administration

**China Design Intelligence Award: Honorable Mention Award**

Organizing Committee of China Smart Design Award

**2023 China Service Brands Top 100**
**2023 Annual Leadership Award**
**2023 Annual Outstanding Management Personnel Award**

China Digital Service Annual Ranking Organizing Committee
China Customer Contact Center Awards Standards Committee
China Digital Service Industry Development Annual Conference Organizing Committee

**2023 Electric Vehicle Craftsmanship Outstanding Organization Award**

Gangbei District Human Resources and Social Security Bureau

**The First Batch of 2023 Guigang City Scientific and Technological Innovation Platforms**

Guigang City Science and Technology Bureau

## 2.2 ESG Management

Sustainable development is an integral part of the corporate governance of the Luyuan Group. The Group establishes a sound governance framework for sustainable development, implements management functions at all levels of the organization for sustainable development-related matters, and continuously enhances the level of corporate governance for sustainable development. The Group has built a comprehensive governance structure covering three levels: the Board of Directors, the Audit Committee, and the ESG working group. An efficient working mechanism has been formed to strictly regulate ESG supervision and management work.

The Audit Committee under the Board of Directors will incorporate ESG review and oversight responsibilities into its existing duties, and regularly report to the Board and provide recommendations. The ESG Working Group, on the other hand, will coordinate the implementation of work plans with department heads, oversee the progress of various tasks, and report regularly to the Audit Committee. The key responsibilities of each work level are outlined below:

**Structure of ESG working organization**

| | |
|---|---|
| **Board of Directors** | • Exercise ultimate decision-making authority, oversee and supervise the Company's ESG and climate-related strategic planning, management, and performance<br>• Approve ESG reports |
| **Audit Committee** | • Organize the development of ESG-related strategies, frameworks, principles, and policies<br>• Monitor the implementation of ESG-related objectives, review whether practices and performance comply with legal and regulatory requirements<br>• Evaluate, assess, and manage key performance indicators and ESG performance set by the Group on significant ESG matters |
| **ESG Working Group** | • Develop and implement the Group's ESG framework, management policies, strategies, and action plans<br>• Assess and identify prioritized and manage significant ESG-related matters<br>• Develop, implement, and execute ESG-related policies, procedures, and measures approved by the Board of Directors<br>• Responsible for ESG information collection, organization, and feedback, and execution of ESG-related tasks |

## 2.3 Communication with Stakeholders

Luyuan Group regards stakeholders as an indispensable part of corporate sustainable development. The Group establishes and maintains good communication with stakeholders through regular and two-way communication channels, allowing the Group to understand their concerns and respond to their requests and expectations.

We have identified eight categories of stakeholders as the most important stakeholders of the Group. The table below shows the concerns of each stakeholder and the communication channels and responses of the Group:

| Stakeholders | Concerns | Communication channels/ways |
|---|---|---|
| Customers and Consumers | Product Quality<br>After-sales Service<br>Customer Privacy<br>Responsible Marketing<br>Product Design and Innovation | Product launch events, promotional activities<br>Customer satisfaction surveys<br>Customer service hotline, Weibo, Mobile applications<br>Company website<br>Customer annual meetings |
| Employees | Compensation and Benefits<br>Employee Legal Rights<br>Health and Safety<br>Career Development<br>Diversity, Equality, and Inclusion | Employee training<br>Union activities<br>Internal publications<br>WeChat official account platform<br>Online channels: employee mailbox, complaint mailbox, telephone |
| Shareholders and Investors | Business Performance<br>Compliance Operations<br>Enhancing Return on Investment<br>Good Corporate Governance<br>Transparent Disclosure of Information | General meetings and other shareholder meetings<br>Company announcements and communications<br>Annual/Interim financial reports<br>Roadshows<br>Company website |
| Suppliers and Business Partners | Regulated Procurement Processes<br>Healthy Competition Mechanisms<br>Mutually Beneficial Partnerships in the Supply Chain<br>Promotion of Industry Development | Contract agreements<br>Regular reviews and evaluations<br>Routine communication meetings<br>Business exchanges and cooperation |
| Government Departments and Regulatory Authorities | Compliance Operations<br>Anti-corruption<br>Promotion of Economic Growth<br>Climate Action<br>Job Creation | Policies and guidelines<br>Inspections, assessments, and supervision<br>Regular communication and information disclosure<br>Work reports |

| Stakeholders | Concerns | Communication channels/ways |
|---|---|---|
| Industry and Standards Associations | Industry Development Promotion<br>Product Responsibility<br>Green Production<br>Technological Innovation | Participation in industry standard setting<br>Attendance at industry conferences<br>Industry information exchange and sharing |
| Public and Media | Compliance with Emissions Regulations<br>Support for Vulnerable Groups<br>Participation in Community Building and Charity Activities | Community outreach activities, environmental initiatives<br>Social media platforms<br>Company website<br>Annual/Interim financial reports |
| Green Groups | Ecological Conservation<br>Energy Efficiency<br>Pollution Reduction | Environmental conservation activities and promotion<br>ESG report information disclosure |

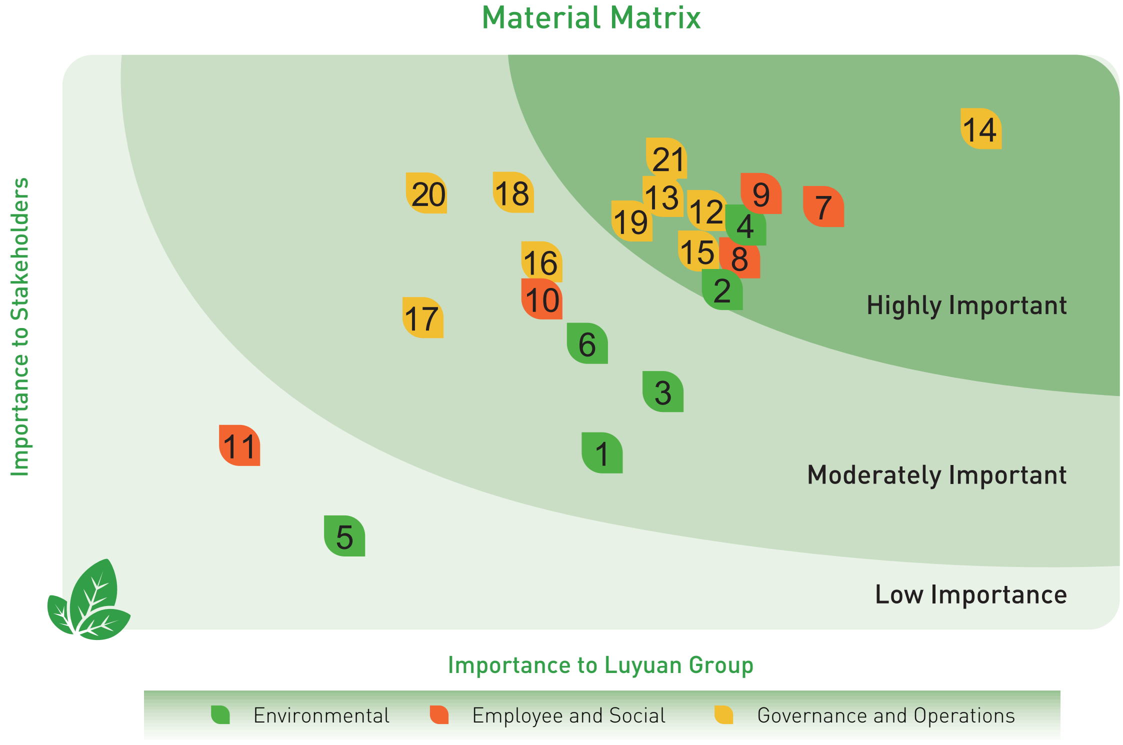
## 2.4 Materiality Assessment

The Materiality Assessment helps Luyuan Group identify risks and opportunities related to sustainable development, clarify improvement directions, and enhance the transparency of this report. It also helps share the progress of the Group's sustainable development with various stakeholders. During the Reporting Period, we commissioned an independent consultancy to conduct a materiality assessment of stakeholders and used online surveys to understand their concerns. The process of materiality assessment mainly involves three major steps: identification, prioritization, and confirmation.

| | |
|---|---|
| **Identification of Issues** | By referring to ESG related authoritative standards such as the ESG Reporting Guide of the Hong Kong Stock Exchange and the Global Reporting Initiative, as well as benchmarking against industry standards and the Group's own development status, the Group has established a series of material issues. In this reporting year's materiality assessment, the Group identified 21 material issues, including 6 environmental issues, 5 social issues, and 10 governance and operational issues. |
| **Prioritization** | The Group invited different stakeholders and representatives from the Group's management to participate in an online survey, collecting their ratings on the potential material issues of the Group and assessing the importance of the selected material issues. The issues will be categorized into three priority levels: highly important, moderately important, and low importance. |

**Confirmation of Material Issues**

Building a materiality matrix from two dimensions — "Importance to Luyuan Group" and "Importance to Stakeholders" — to screen out highly important issues based on the ratings of each issue. The results will be submitted to the Group's management for discussion and review, and the final confirmation of the importance ranking of material issues will be approved.




In this reporting year's materiality assessment, the Group identified 11 highly important issues, namely "Product Quality and Safety", "Employee Employment and Rights", "Employee Health and Safety", "Information Security and Management", "Research and Technological Innovation", "Excellent Customer Service", "Waste Management", "Employee Development and Training", "Sustainable Supply Chain Management", "Energy Use and Management" and "Business Ethics and Anti-Corruption" along with 8 moderately important issues and 2 low importance issues.

The Group believes that sharing concrete actions and firm commitments towards achieving the United Nations Sustainable Development Goals is of paramount importance. In our dedication to various sustainable development issues, the Group actively contributes to ensuring that our efforts are closely aligned with the core United Nations Sustainable Development Goals ("UNSDG"), thereby making meaningful contributions to global sustainable development.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Category | Corresponding UNSDG | Issue | Response Section |
|---|---|---|---|
| Environment | 7 AFFORDABLE AND CLEAN ENERGY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION | 1. Greenhouse Gas and Emissions Management | 5.1 Energy and Greenhouse Gas Emissions Management |
| | | 2. Energy Use and Management | 5.1 Energy and Greenhouse Gas Emissions Management<br>5.2 Water Resource Management |
| | | 3. Natural Resource Use and Management | 5.3 Environmental Assessment |
| | | 4. Waste Management | 5.4 Waste Water, Air pollution and Solid Waste Management |
| | | 5. Climate Change Mitigation | 5.5 Response to Climate Change |
| | | 6. Clean Energy Technology Opportunities | 5.6 Innovative Green Technologies |
| Employees and Society | 3 GOOD HEALTH AND WELL-BEING; 5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES | 7. Employee Employment and Rights | 4.1 Employee Rights and Benefits |
| | | 8. Employee Development and Training | 4.3 Talent Cultivation and Development |
| | | 9. Employee Health and Safety | 4.2 Occupational Health and Safety |
| | | 10. Talent Attraction and Retention | 4.3 Talent Cultivation and Development |
| | | 11. Community Investment | 4.4 Community Responsibility and Contribution |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Category | Corresponding UNSDG | Issue | Response Section |
|---|---|---|---|
| Governance and Operations | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS; 17 PARTNERSHIPS FOR THE GOALS | 12. ESG Governance System | 2.2 ESG Management |
| | | 13. Excellent Customer Service | 3.4 Customer Rights Protection |
| | | 14. Research and Technological Innovation | 5.6 Innovative Green Technologies |
| | | 15. Product Quality and Safety | 3.2 Quality Control |
| | | 16. Sustainable Supply Chain Management | 3.5 Sustainable Supply Chain |
| | | 17. Industry Cooperation and Ecosystem Building | 3.5 Sustainable Supply Chain |
| | | 18. Intellectual Property Management | 3.3 Intellectual Property Protection |
| | | 19. Business Ethics and Anti-Corruption | 3.1 Business Ethics and Anti-Corruption |
| | | 20. Risk Management and Regulatory Compliance | 2.2 ESG Management<br>3.2 Quality Control |
| | | 21. Information Security and Management | 3.4 Customer Rights Protection |

# 3. GOVERNANCE AND OPERATIONS

The Group has always adhered to the principle of compliance and operates with integrity as its foundation. We understand that responsible corporate governance is the cornerstone of healthy and sustainable business development. Therefore, we consistently adhere to relevant laws, administrative regulations, departmental rules, and normative documents such as the Companies Ordinance and CG Code. We continuously improve our corporate governance structure, establish sound internal management and control systems, and ensure the transparency and compliance of corporate governance.

Corresponding UNSDG:


## 3.1 Business Ethics and Anti-Corruption

Luyuan Group is committed to creating an incorruptible, open, and honest working environment, adopting a "zero-tolerance" policy towards bribery, extortion, fraud, money laundering, and other such behaviors. We adhere to the principles of business ethics and strictly comply with relevant corporate governance laws and regulations, including the Criminal Law of the People's Republic of China, the Company Law of the People's Republic of China, and the Anti-Unfair Competition Law of the People's Republic of China. Additionally, we have formulated the "Anti-Business Bribery Management Regulations" which clearly outline prohibited actions, establish corresponding penalties, and promote the systematic management of anti-corruption and integrity efforts. During the Reporting Period, the Group was recognized as a model enterprise for integrity in the private enterprise and as a demonstration enterprise for protecting commercial secrets, affirming our dedication and efforts in combating corruption.

To practice ethical consciousness permeates through the Company's operations and daily employee management, the Group requires key personnel to sign the "Clean and Self-discipline Commitment Letter" and institutions engaged in business transactions are required to sign the "Anti-Business Bribery Agreement". Department heads are responsible for strictly implementing these measures to ensure that every employee of the Group understands and practices ethical compliance. Additionally, senior management at the director level and above are required to submit an annual self-reflection report, which is verified and filed by the legal department. During the Reporting Period, the Group conducted anti-corruption training sessions for Directors and employees to learn about the latest regulations and practices about anti-corruption to promote awareness of new regulations. All executive Directors participated in anti-corruption training. Furthermore, employees in various departments filled out self-assessment forms during the year, declaring that they were not involved in any corrupt, extortion, fraudulent, or bribery activities. These preventive measures and practices are constantly monitored and reviewed by the Company to ensure that they are effectively implemented. There were no complaints or lawsuits related to corruption, bribery, extortion, fraud, or money laundering involving the Group or its employees during the Reporting Period.

To facilitate collective supervision of the Company's compliance and ethical responsibilities both internally and externally, the Group has established and promoted a transparent and open whistleblowing system, which has been reviewed on a regular basis. Various channels, such as telephone hotlines and email, are available for employees at all levels and stakeholders with direct or indirect economic relationships with the Group to report any violations of professional ethics or suspected fraudulent activities by Group employees. The handling and investigation of complaints must be strictly confidential, and any disclosure of the reporter's name or department is strictly prohibited.

**Whistleblowing Channel**

Reporting Hotlines: 4008877505 Reporting E-mail: fawu@luyaun.cn

## 3.2 Quality Control

The Group adheres to the core strategy of "striving for excellence, pursuing excellence" in product quality management, continuously improving its quality control capabilities, and empowering customers and industries. The Group strictly complies with relevant laws and regulations, including but not limited to the "Product Quality Law of the People's Republic of China," "Safety Technical Specification for Electric Bicycle", "Safety specifications for electric motorcycles and electric mopeds", "Compulsory Product Certification Implementation Rules — Electrical Bicycles" and "Compulsory Product Certification Implementation Rules — Factory Quality Assurance Capability Requirements". During the Reporting Period, the Group's quality control system passed the ISO 9001:2015 "Quality Control System Certification". We have also established "Quality Management Regulations", "Inspection Standards Compilation Procedures" and "Measurement Equipment Management Regulations" etc. Clear provisions are made from product development to product measurement, including warranty, replacement, and return management ("**Three Guarantees**"), ensuring that product quality meets customer requirements, and clarifying the operating requirements of each responsible person.

**Product Development Quality Management:**

- Strengthen quality assurance and planning from new product design, application of new technologies, and management of supporting suppliers.

**Incoming and Finished Product Quality Management:**

- Standardize the incoming, process, semi-finished, and finished product inspection processes to ensure quality control at each relevant stage, and clearly define the inspector's operations.

**Quality of Components and Finished Products:**

- Clarify the process for compiling inspection standards, ensure the timeliness and effectiveness of inspection standards, and facilitate the effective conduct of various inspection tasks.

**Product Quality and Consistency Traceability Management:**

- Determine the flow and information of products from the source to processing to sales throughout the entire process, enabling traceability from top to bottom and bottom to top, facilitating the identification of reasons for non-conformities, utilizing the initiation of procedures to recall defective products from customers where reports of non-conformities of products have been confirmed, and enhancing production efficiency.

**Three Guarantees Quality Management:**

- Regulate the statistics and analysis of market three-guarantee components to reduce the occurrence of defective market three-guarantee components and serve the improvement of product quality.

**Quality Inspection:**

- Conduct regular quality inspections to enhance the integrity and standardization of inspector work, improve the quality of inspector work, and ensure the consistency of vehicle quality meets requirements as a whole.

We attach great importance to the quality and safety testing of electric vehicles, conducting rigorous spot checks on the frame strength and rear fork to ensure that each electric vehicle meets high-quality standards. At the same time, we continuously improve the professionalism and work quality of inspectors to ensure the consistency of the overall vehicle quality. Through these measures, we are committed to ensuring the quality and safety of electric vehicles, providing consumers with reliable and trustworthy products. During the testing process, if any abnormal conditions are found, we will strictly follow the "Non-conforming Product Disposal Procedure" and "Batch Quality Abnormal Handling Procedure" to ensure that quality abnormalities can be promptly and effectively resolved, preventing the recurrence of the same issues, thereby continuously improving the quality and safety of electric vehicles.

## Quality Month

In June 2023, the Group organized a cultural event called "Quality Month" aimed at strengthening all employees' focus on product quality and creating a culture of quality control with the participation of all staff. During the event, we intensified quality-related training and education to ensure that all employees throughout the production chain could benefit from it, thereby improving their quality awareness and personal qualities starting from the details of their work. Additionally, we held employee quality knowledge quizzes and skills competitions covering professional knowledge, production inspection standards, and the Group's quality control regulations to enhance employees' skills and knowledge while also promoting teamwork and cohesion, thus boosting their enthusiasm and complementarity. During the event, Group leaders personally participated in quality inspections at frontline production facilities, demonstrating our firm commitment to product quality.



During the Reporting Period, the Group did not initiate any product recalls that have already been sold or delivered due to safety and health issues, nor were there any incidents involving serious violations of regulations related to product liability, product and service health and safety, advertising, and labeling that had a significant impact on the Group.

## 3.3 Intellectual Property Protection

To maintain our industry-leading position and market competitive advantage, promote business development, encourage invention and innovation, and enhance the level of intellectual property management and protection, the Group highly values intellectual property protection. We strictly comply with relevant laws and regulations such as the "Patent Law of the People's Republic of China", "Trademark Law of the People's Republic of China" and "Copyright Law of the People's Republic of China", as well as related provisions. On the other hand, we have formulated and implemented several policy documents related to safeguarding the Group's patents and intellectual property, including the "Patent Application Process," "Patent Maintenance Process," "Intellectual Property Rights Protection Process," and "Intellectual Property Management Regulations," which clearly outline the group's confidentiality system and the rights and obligations related to intellectual property. The Group had obtained a total of 489 patents and 105 licensed trademarks. During the Reporting Period, the Group had the honor of being recognized as a provincial-level demonstration enterprise for intellectual property by the Administration for Market Regulation of Zhejiang Province, highlighting our outstanding achievements in intellectual property protection and management.

The Intellectual Property Management Team, led by the President's Office, has been established to safeguard the legitimate interests of intellectual property rights. Below are some of the primary responsibilities of the Management Team:

1. Formulate various management regulations for intellectual property rights and coordinate intellectual property management work

2. Review intellectual property applications from various business departments, and organize and establish intellectual property file management

3. Represent the Company in external affairs related to intellectual property rights

4. Handle intellectual property-related disputes, litigation, and other matters on behalf of the Company

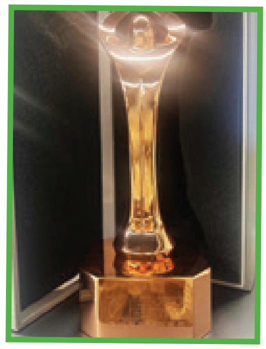
5. Organize publicity and learning activities related to intellectual property rights laws, and exchange experiences

## 3.4 Customer Rights Protection

### Excellent Customer Service

***2023 Performance Highlights***

The Group was honored to receive multiple awards related to innovative brand marketing in 2023. Not only did this affirm the authenticity of our marketing content and promotional messages, but it also highlighted our efforts in innovative marketing techniques.

| Smarties China 2023: Excellent award | Global Business Innovation Award 2023: Silver award | ROI Awards: Bronze award |
|---|---|---|
|  |  |  |



The number of respondents in the customer satisfaction survey conducted in 2023:

**10,000**

Customer satisfaction rate reach:

**92%**

The Group is committed to providing customers with high-quality and reliable products and services to establish mutual trust and long-term cooperation. We adhere to ethical, scientific, and objective approaches in product marketing and promotion. Customer feedback is highly valued, and we actively strive to provide excellent service to our customers. In our marketing efforts, we strictly adhere to local legal requirements and industry guidelines, including the Advertising Law of the People's Republic of China. To ensure the legality, truthfulness, scientific nature, and accuracy of marketing activities, we have established comprehensive internal systems, such as the Investment Relations Management Regulations, and require all marketing content and formats to be reviewed by the board secretary. We strictly prohibit the dissemination of deceptive or misleading promotional information to ensure that customers' legitimate rights and interests are not infringed upon. During the Reporting Period, the Group was not involved in any legal litigation related to false marketing claims.

The Group has set "3 minutes response, 30 minutes arrival, 24/7 on duty" as its service goals, and has developed the 123+N service model to continuously optimize our market service system and pipeline after-sales service system, aiming to provide customers with excellent service experiences.

**The 123+N service model consists of:**

**1 Dispatch Service Platform**

We provide various professional services including road rescue and work subsidies based on this dispatch service platform. Additionally, the platform can enhance store service realization through professional services and expanding membership.

**2 Standardized Service Processes**

We have established standardized service processes for road rescue and in-store services to ensure quick response and reduce waiting time. Our professional rescue team and unified service standards can provide customers with more reliable and convenient service experiences, enhancing customer trust.

**3 Service Network Construction Models**

We have established three types of service network architectures including "1st-tier city service network construction", "2–4th-tier city service network construction" and "County-level service network construction" to ensure catering to the needs of all customers. We establish flagship service stations, standard service stores, retail stores, and franchises with suburban network points to create a service network with a service radius of not more than five kilometers and establish information interconnection between network points to communicate service issues, company policies, and accessory needs in real-time.

**N Types of Service Modes**

We improve revenue and other service operation models through diversified service management models and effective activity promotion, facilitating service efficiency. Some of the main services provided are as follows:

**24-hour road rescue**: Solving the trouble of vehicles breaking down halfway

**20 free services**: Regularly inspect some accessories involving safety and easily overlooked

**Three-year seven-times maintenance**: Providing long-term and practical maintenance services

### Customer Feedback Mechanism

Luyuan Group provides smooth channels for customer service complaints, earnestly listens to customer opinions and suggestions. The Group has formulated the "Product Quality Complaint Handling Process" to standardize the handling and feedback mechanism for complaints. According to the complaint situation, if there are relevant standard service solutions for the complaint, it will be processed according to the relevant complaint process. If the complaint does not have a standard service solution, the customer experience specialist, after-sales quality engineer, inspector, and quality department of each business unit will negotiate and discuss the reasons for the customer's complaint and propose specific solutions to resolve the complaint. We also periodically summarize and evaluate the process of handling customer complaints, draw lessons from experience, propose improvement suggestions, continuously improve business management and operational processes, and improve the quality and level of customer service. During the Reporting Period, the Group received a total of 99 complaints related to customer and product quality issues, mainly involving accessory quality, vehicle assembly, and mileage-related issues. All complaints were properly handled according to the "Product Quality Complaint Handling Process" and "Quality Abnormal Handling Process" mechanisms, achieving a complaint handling rate of 100%.

### Customer Privacy and Information Security

To ensure comprehensive protection of customer privacy and information security, the Group has formulated the "Information Security Management Regulations." We have established security measures that comply with industry standards and classified and graded all data involved in the company. The Company has complied with all relevant laws and regulations relating to customer privacy and information security. Based on the type and scope of information, we have divided it into four categories and established clear permissions and encryption control measures for each category.

Additionally, the Group has established an Information Security Management Team, with the Director of Information Department serving as the team leader, responsible for implementing national guidelines, policies, laws, and regulations on information security management, ensuring that the Company's information security management work is highly consistent with national laws and regulations. He is also responsible for reviewing the Company's information security management system and supervising its implementation to ensure the effective execution of the information security management system. Server security engineers and operations and maintenance security engineers serve as executive officers, assisting the Director of Information Department in coordinating information security management work. They are responsible for regularly inspecting security vulnerabilities in systems to ensure the security and stability of servers and operations and maintenance environments. Additionally, each department has executive members who are responsible for implementing various information security management tasks issued by the team and educating employees on information security to enhance their awareness.

The Group organizes annual information security-related training for employees. The training content covers laws and regulations related to information security, Company information management policies, commonly used computer and network security protection methods, etc., aiming to enhance employees' awareness and skills in information security and ensure the comprehensive and effective implementation of information security management work. Furthermore, to further strengthen information security protection efforts, we regularly invite third-party organizations to conduct vulnerability testing on Company systems. These tests aim to identify potential security risks and promptly make repairs to ensure system security.

## 3.5 Sustainable Supply Chain

### Supplier Screening

A robust and stable supply chain is the underlying support for the Group to deliver high-quality products and services to customers in a timely manner. The Group has established a scientific and comprehensive supplier management system, including the "Supplier Management Regulations", "Supplier Screening Process", "Supplier Evaluation Process", "Supplier Elimination Process", "Supplier Account Termination Process", and others. These processes and regulations aim to ensure the quality, reliability, and consistency of suppliers to guarantee the high standards of our products and services.

When evaluating potential suppliers, we organize category managers, Research and Development engineers, and quality engineers to conduct on-site assessments. We input supplier site assessment forms, conduct on-site audits of supplier production processes, quality control, mold/equipment maintenance, supply guarantee, operational management, and process control, among other dimensions, and collect basic data. This evaluation process includes assessing various ESG-related aspects such as:

| Environment aspect | Society aspect |
|---|---|
| 1. Does the supplier hold certifications such as ISO14001 Environmental Management System? | 1. Does the supplier hold certifications such as ISO 45001 Occupational Health and Safety Management System? |
| 2. Does the supplier possess valid environmental monitoring reports for air pollutant emissions? | 2. Does the supplier have approval files for pre-assessment of occupational disease hazards issued by the Health Bureau? |
| 3. Is the supplier's pollution discharge permit valid? | 3. Does the supplier have policies in place to protect employees from harassment? |
| 4. Does the factory have proper storage for hazardous materials? | 4. Does the supplier have a direct channel for employees to lodge complaints bypassing their supervisors? |
| 5. Are waste materials, scrap metals, and garbage handled properly and appropriately? | 5. Does the supplier provide regular health body checks for employees? |

Additionally, after signing contracts with suppliers, in line with our responsible attitude towards society, we supplement the contract with a "Environmental Safety Initiative" document. According to GB/T 24001 "Environmental management systems — Requirements with guidance for use" and GB/T28001-2011 "Occupational health and safety management systems — Requirements" we propose initiatives such as resource conservation, waste reduction, and emission reduction, aiming to develop a circular economy and achieve green production together with suppliers.

### Supplier Evaluation

Following the "Supplier Evaluation Process," we conduct comprehensive evaluations of supplier performance quarterly. The evaluation system is built around five core dimensions: quality, technology, price, delivery, and ESG, ensuring that suppliers meet our expectations in all aspects. In terms of ESG, we pay special attention to how suppliers respond to environmental factors such as energy conservation and the use of eco-friendly materials, while also assessing their social factors such as occupational health hazards and accidents.

After completing the evaluation, we summarize the results and categorize them into four levels: A, B, C, and D. For A and B level suppliers, we prioritize cooperation and increase procurement quotas. For C level suppliers, we restrict development and urge them to improve. As for D level suppliers, we cease cooperation, limit procurement, and consider pre-elimination. Through this evaluation system, we aim to select high-quality suppliers and promote the sustainable development of the supply chain.

## Green Packaging

One aspect of the "Environmental Safety Initiative" involves implementing improvement plans for packaging by component suppliers. We encourage suppliers to replace disposable packaging with iron frame packaging. This change not only promotes the reuse of iron frame packaging but also reduces packaging waste at the source, successfully achieving the circular connection and green transportation of the supply system.



| Indicator Name | | Unit | 2023 |
|---|---|---|---|
| Total Number of Suppliers | | Count | **398** |
| Number of Suppliers by Region | Mainland China | Count | **398** |

# 4. EMPLOYEES AND SOCIETY

Incentivizing employees is crucial for the long-term development of the Group's business. Therefore, we are committed to being an excellent employer, caring not only for the well-being of our employees but also for the interests of our partners. At the same time, we actively promote the health and development of the community, striving to improve the quality of life for residents, in order to achieve a win-win situation for both the business and society.

Corresponding UNSDG:

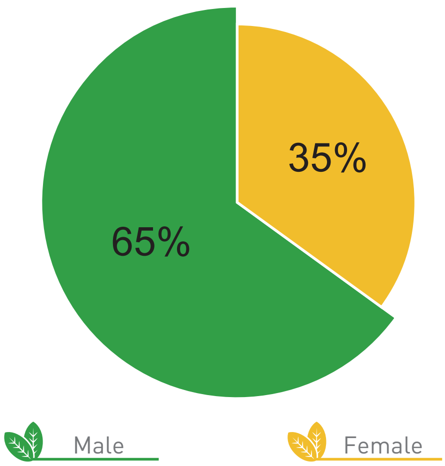

## 4.1 Employee Rights and Benefits

### Employment Management

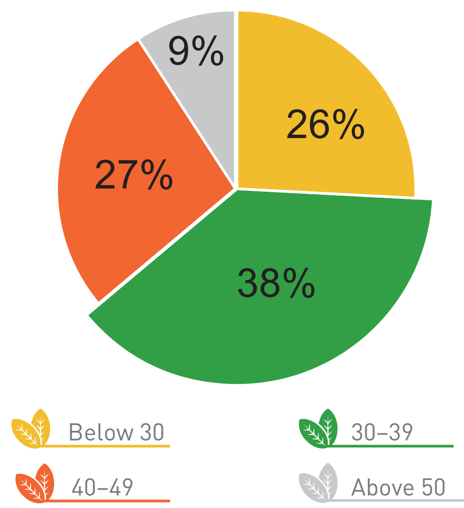
Luyuan Group has always adhered to a people-oriented approach, considering employees as the cornerstone of the Group's business development. In terms of employee recruitment, we strictly adhere to the principles of legality, compliance, and meritocracy, and strictly comply with relevant national and local laws and regulations such as the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, and the Law on the Protection of Women's Rights and Interests of the People's Republic of China. At the same time, we have internally formulated the "Employee Handbook" and "Attendance Management Regulations", which regulate the behaviors and procedures of recruitment, employment, job arrangement, attendance, promotion, compensation, training, and dismissal, ensuring compliance and fairness in all aspects of recruitment, employment, job placement, attendance, promotion, compensation, training, and dismissal. We firmly oppose any form of employment discrimination, ensure that the rights of employees are fully protected, regardless of gender, disability, family marital status, sexual orientation, age, political and philosophical views, religious beliefs, union activities, race, social, cultural, or nationality factors.

As of 31 December 2023

Total numbers of employees by gender

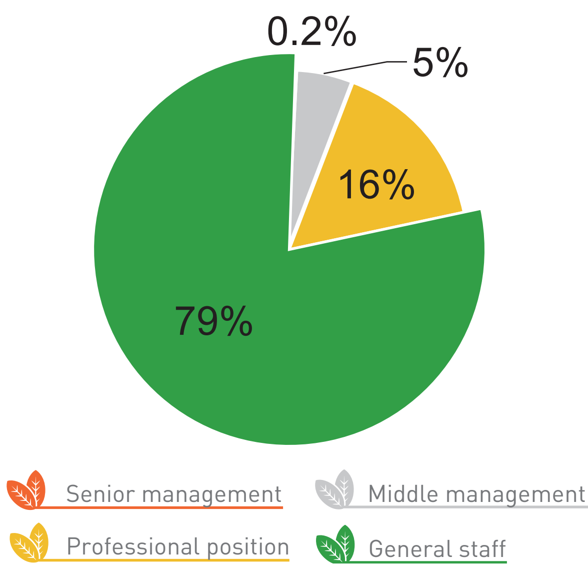



Total numbers of employees by age group

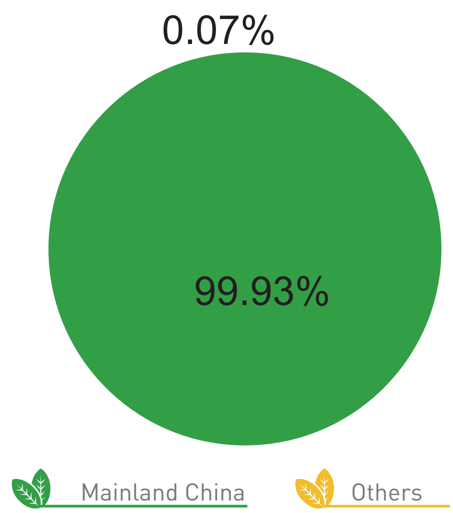



As of 31 December 2023

Total numbers of employees by types of employment




Total numbers of employees by region



| Indicator | | 2023 |
|---|---|---|
| Total numbers of employees[1] (person) | | 2,906 |
| Total numbers of employees by gender (person) | Male | 1,888 |
| | Female | 1,018 |
| Total numbers of employees by age group (person) | Below 30 | 771 |
| | 30-39 | 1,093 |
| | 40-49 | 771 |
| | Above 50 | 271 |
| Total numbers of employees by employment categories (person) | Senior management | 6 |
| | Middle management | 150 |
| | Professional position | 451 |
| | General staff | 2,299 |
| Total numbers of employees by region (person) | Mainland China | 2,904 |
| | Others | 2 |
| Total employee turnover rate[2] (%) | | 15.7% |
| Total employee turnover rate by gender (%) | Male | 16.4% |
| | Female | 14.4% |
| Total employee turnover rate by age group (%) | Below 30 | 29.6% |
| | 30-39 | 14.6% |
| | 40-49 | 6.7% |
| | Above 50 | 5.9% |
| Total employee turnover rate by employment categories (%) | Senior management | 0% |
| | Middle management | 3.3% |
| | Professional position | 1.1% |
| | General staff | 16.3% |
| Total employee turnover rate by region (%) | Mainland China | 15.7% |
| | Others | 0% |

## Employment Compliance

The Group strictly complies with applicable laws and regulations related to preventing child labor and forced labor, including but not limited to the Law of the People's Republic of China on the Protection of Minors and the Provisions on the Prohibition of the Use of Child Labor. The Group has also established regulations such as the "Recruitment Management Regulations", "Regulations on the Prohibition of the Use of Child Labor and Child Labor Management" and "Regulations on the Prohibition of Forced Labor" to strictly prohibit the employment of child labor and forced labor.

1 Number of employees are recorded as of 31 December 2023.

2 Employee turnover rate refers to the total number of employee turnover of particular categories divided by the total number of employees of the corresponding category.

The Group's Business Partner ("BP") department is responsible for monitoring the employee recruitment process and preventing the use of child labor and forced labor. All personal information of new employees is verified by personnel officers at each base to ensure compliance with legal working age and work permit requirements before offering job positions to prevent the hiring of child labor and forced labor. Once cases of mistakenly hiring child labor are discovered, we will repatriate them in accordance with the law, notify their parents to pick them up, and bear the cost of their return journey. Similarly, if cases of forced labor are discovered, we will investigate and collect opinions from the forced laborers, discuss with the management, and seek solutions together. In cases of serious offenses, we will also report to the public security authorities.

During the Reporting Period, the Group did not receive any reports of violations against laws and regulations related to the prohibition of child labor and forced labor.

**Employee Benefits**

To enhance employee job satisfaction and loyalty, our Group has carefully crafted a humane and comprehensive welfare system. In addition to providing standard statutory benefits such as the five insurances and one fund, statutory holidays, heatstroke subsidies, and labor protection in accordance with national and operating requirements, we have also formulated the "Welfare Management Regulations" to provide universal and exclusive benefits such as birthday blessing, team activities, health bodychecks, holiday red packets, housing loans, collective dormitories, cafeteria meal subsidies, etc., hoping to provide employees with more support in both material and spiritual aspects, reduce their worries, and enhance employee satisfaction.

In terms of compensation, the Group has also formulated the "Salary Management Regulations" to transparently and systematically determine salary levels to ensure fair and reasonable compensation for employees. We conduct regular annual performance evaluations, divide performance into four levels: A, B, C, and D, and use the evaluation results as a fair and objective benchmark to award corresponding performance bonuses to our talents. In addition, we regularly review compensation packages to ensure they remain competitive in the market and commensurate with employees' work experience and performance. In terms of time management, the Group strictly complies with national laws and regulations and provides clear provisions on overtime, working hours calculation, attendance, statutory holidays, annual leave, and statutory special holidays in the "Employee Handbook".

After undergoing a complete renovation, the Luyuan Sports Centre reopened to employees free of charge in May. The Sports Centre is equipped with a gym room and a multipurpose practice area, providing employees with a variety of exercise options. We encourage employees to enjoy happy moments of exercise while working happily.

To meet the diverse taste preferences of more employees, we have enriched the cafeteria's menu selection to ensure employees' dietary safety and rights. The cafeteria supervisory committee conducts regular hygiene and price inspections to ensure the food quality, hygiene standards, and prices are reasonable, allowing employees to eat with peace of mind.

### Employee Care

To enrich employees' cultural life and create a diverse and warm corporate culture atmosphere, the Luyuan Group has organized a labor union composed of department heads, elected anonymously for the union president. The union collaborates with relevant departments to organize activities related to caring for employees, health, and public welfare. During the Reporting Period, the Group organized a series of cultural interaction and team-building activities such as anniversary celebrations, birthday parties, Christmas activities, and Lantern Festival activities.

During Chinese New Year, the Group held an activity called "Writing Blessings and Giving Spring Couplets" where employees wrote spring couplets and blessings, delivering hearty New Year wishes.

After the Luyuan Sports Centre's renovation, we held a unique employee sports event in November. In addition to basketball matches, there were several interesting and challenging competition items. The sports event received enthusiastic responses and active participation from employees, with over 300 employees participating.

On International Women's Day 2023, the Group and each base carefully planned to send gifts and blessings to female employees, paying tribute to every shining female employee.

The Luyuan labor union conducted heartwarming visits to difficult employees. The union chairman personally visited and inquired about the health and family status of each difficult employee, expressing the company's and union's care and concern and providing them with consolation money and gifts.

### Employee Communication

The Group recognizes that effective communication is one of the key elements to improve employee satisfaction and drive the long-term development of the Company. Therefore, we are continuously expanding employee communication and complaint channels, improving the efficiency of internal information dissemination, and establishing timely and efficient feedback mechanisms to enhance communication effectiveness. We believe that by strengthening internal communication, we can better understand employee needs, address their issues, promote their participation, thereby enhancing employee satisfaction and work efficiency, and driving the long-term development of the Company.

During the Reporting Period, the Human Resources Administration Department in Huadong collaborated with the labor union to hold regular employee forums every month. The forums aim to provide an open platform for employees to freely express their thoughts and opinions, as well as to provide feedback to management on work-related issues and suggestions. In addition, to accelerate the integration of new employees into the Luyuan family, two new employee forums were also held in the Reporting Period. Starting from aspects such as communication and collaboration, colleague relationships, team atmosphere, corporate culture, system processes, and logistical services, the forums explained how employees can solve problems, enhance their sense of belonging, and encourage them to provide reasonable suggestions for improvement.

The Group also conducts regular employee engagement surveys through third-party vendors, allowing employees to participate via online questionnaire platforms. The questionnaire consists of over 60 questions, covering more than 20 dimensions such as individual engagement and organizational empowerment to evaluate employee engagement. The survey results are regularly reported to management, who adjust and optimize the Company's management strategies based on the findings. Department heads then implement relevant improvement measures based on the results. During the Reporting Period, thanks to the active participation of all employees, the feedback rate for the engagement survey reached as high as 77%, and the overall organizational engagement performance of the Company was excellent.

**New employee forums**

## 4.2 Occupational Health and Safety

Employee health and workplace safety are the top priorities in the daily operations of Luyuan Group. We strictly adhere to laws and regulations such as the Law of the People's Republic of China on Work Safety and the Fire Protection Law of the People's Republic of China. We have also obtained certification certificates for the Occupational Health and Safety Management Systems (ISO 45001) and the Laboratory Quality Control System (ISO 17025). We are committed to achieving a zero occupational disease incidence rate. To achieve this, we have formulated policies, execution, and monitoring methods for "Safety Work Environment and Employee Protection from Occupational Hazards," implementing comprehensive measures for occupational disease prevention. These measures include regular testing, frequent safety inspections, and adequate safety training. These measures aim to enhance employees' safety awareness and skills, reduce accidents, and safeguard employee health and safety. During the Reporting Period, the Group successfully achieved the goal of zero severe injuries and fatalities, with minor injuries incidents also controlled to below 2%. The attainment of this achievement is attributed to the collective efforts of all employees and the strict supervision of management at all levels. Additionally, no serious violations of laws and regulations regarding the provision of a safe work environment and protection of employees from occupational hazards were identified during the Reporting Period. For the last three years, including the Reporting Period, the Group had no work-related fatality.

In terms of occupational disease prevention, we have engaged third-party organizations to assist in conducting occupational hazard factor detection. Through on-site monitoring and measurements, comprehensive and detailed analysis and evaluations are made, and improvement measures are proposed from various aspects including protective measures, personal protection, personnel hygiene training, occupational health management, and warning signs. The Group has comprehensively improved the health and safety measures of its facilities based on the relevant recommendations, aiming to shoulder the responsibility of caring for employee well-being and minimizing safety risks in the work environment. Furthermore, in accordance with the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases, the Group ensures that employees are informed about the occupational disease hazards and consequences that may arise during work processes before they commence employment. Through pre-job and on-the-job occupational health and safety training, employees are guided on the correct use of relevant occupational disease prevention equipment and personal protective gear. We arrange for employees to undergo occupational health examinations before starting work, during employment, and upon leaving their positions, and the examination results are truthfully communicated to them. If suspected cases of occupational diseases are identified, we arrange changing positions for detailed examinations and regular follow-ups. During the Reporting Period, occupational health checks were provided to all employees, and no suspected cases of occupational diseases were found.

In terms of safety inspections, the safety and environmental departments at each of our bases are responsible for conducting daily routine inspections of workplace safety within the facilities. Additionally, we conduct a monthly large-scale environmental and safety review, led by the general manager, where red card inspections are carried out across departments. Through these inspections, any environmental safety issues within departments are identified and marked, and assistance is provided to facilitate improvements. During the Reporting Period, no significant safety issues were identified.

The Group recognizes the importance of occupational health and safety training and therefore regularly organizes training sessions for employees on safety production and occupational health. These trainings ensure that employees are familiar with relevant policies and regulations, aiming to maintain a zero accident rate, enhance safety technical competence, prevent accidents, and protect the interests of both the individuals and the company. During the Reporting Period, we provided all employees with training on production safety, fire safety, and occupational health as part of our Safety Month activities. Additionally, each site organized safety training covering accident cases, fire safety, emergency response, and occupational health, along with setting up assessment testing environments. The cumulative number of individuals trained in health and safety exceeds 1,600 person, with a total training duration of approximately 5,000 hours.

During the Reporting Period, we have recorded a total of 17 injured employees and 557 lost days due to work injury. Such injuries mainly include traffic accidents during employee commuting.

**Painting Department Emergency Environmental Accident Drill**

## 4.3 Talent Cultivation and Development

### Talent Attraction and Retention

***2023 Performance Highlights***

Retention rate of new employees in 2023:

**80.8%**

Retention rate of new employees recruited through campus recruitment in 2023:

**87.3%**

The Group regards employees as the cornerstone of sustainable development for the enterprise, firmly believing in the core talent development concept of "promoting outstanding individuals and boldly recruiting." The Group has established dual development channels for both management and professional growth, fully safeguarding the legitimate rights and interests of employees. The Group has also improved various compensation and welfare plans, emphasising employee training and development to realise the value of each employee. In terms of recruitment, we hire talents with different backgrounds through various channels such as online recruitment, campus recruitment, and job fairs, providing open and equal employment opportunities.

Furthermore, we adopt a dual-channel development model, establishing career development directions for both professional and management channels to meet the career development needs of every employee, which allow them to fully utilise their strengths, achieve greater efficiency, and create more value. The management channel corresponds to both horizontal development and vertical promotion of positions, aiming to develop outstanding managerial talents. Meanwhile, the professional channel corresponds to vertical promotion of professional titles, aiming to develop expert talents in their respective fields.

*Professional Channel Promotion Pathway*


*Management Channel Promotion Pathway*

## New Joiner Scheme

The New Joiner Scheme (青藤計劃) is a three-year personal training and development programme for new employees, aimed at helping them grow rapidly. At the beginning of the programme, all employees undergo centralised training to acquire the basic skills required for their positions. Subsequently, new employees delve into various departments to experience the complete business processes, deepening their understanding of the Company. Based on individual strengths and interests, new employees are assigned to suitable positions. Over the next two to three years, the focus of the programme shifts towards practical projects and hands-on experience. We have implemented a mentorship system and class committee system, where mentors provide comprehensive guidance to new employees ranging from work instructions, growth development assistance to personal support.

To ensure the effectiveness of the training, the Company conducts regular quarterly reviews and selects outstanding talents based on performance. These outstanding new employees will have the opportunity to be promoted to middle management, injecting new vitality into the Company's sustainable development. The New Joiner Scheme not only focuses on skill enhancement but also emphasises personal growth and career development, helping new employees realise their personal value within the Company while laying a solid foundation for the Company's long-term development.


Employee Training

The total investment in the training programme in 2023 is approximately

**RMB3.64 million**

Over **140** external training programmes to be organised in 2023

The total training hours is:

**58,550 hours**

The total number of employees trained reaches:

**2,578**

Talent training is one of the key areas where our group invests resources. We continuously innovate training systems and vigorously implement talent training programmes, establishing the concept of Luyuan University. Through a systematic and professional training system, we aim to provide employees with comprehensive learning and development opportunities, unleash their potential and creativity, and promote the collective growth of individuals and teams. Each year, the Group prepares an annual training plan to coordinate the Group's talent development planning. Our training channels include online external training, offline external training, internal training, and visits. External training is the main channel, aiming to promote communication and learning among internal employees from external perspectives. Additionally, the Group has established "External Training Management Regulations," requiring frontline employees, middle management, and senior leaders to have a minimum of 12 hours, 25 hours, and 50 hours of external training respectively, to ensure they continuously update their knowledge and skills, enhance the overall quality of individuals and teams, and respond to the ever-changing market environment and business needs.

In order to provide high-quality third-party training institutions, the human resources department will explore more potential institutions through methods such as information dissemination through HR forums, visits and communication. When selecting training institutions, we also conduct peer research and institutional analysis, considering whether the institutions have sufficient successful cases and capabilities to provide training services for the Group. Additionally, we regularly assess and track the effectiveness of training to ensure the quality of training is effectively guaranteed. Through these efforts, we hope to provide the Group with more professional and reliable third-party training institutions, helping employees continuously improve their abilities and qualities, and promote the Company's sustainable development.

In order to enable employees to participate in training more actively and conveniently, the group has provided an online learning platform, allowing employees to engage in training content of their interest anytime, anywhere. This platform not only offers internal training programmes of the Group but also introduces courses of different categories, covering various areas from professional skills to personal development, meeting the diverse learning needs of employees. Employees can choose courses that suit their interests and career development and enhance their knowledge and abilities through online learning.

| Indicators | | Unit | 2023 |
|---|---|---|---|
| Total number of employees trained[3] | | person | **2,587** |
| Percentage of employees trained by gender[4] | Male | % | **88.7%** |
| | Female | % | **88.7%** |
| Percentage of employees trained by employment categories[4] | Senior management | % | **150.0%** |
| | Middle management | % | **122.7%** |
| | Professional position | % | **83.8%** |
| | General staff | % | **87.3%** |
| Average number of training hours per employee | | hour | **20.15** |
| Average number of training hours per employee by gender | Male | hour | **22.17** |
| | Female | hour | **16.39** |
| Average number of training hours per employee by employment categories | Senior management | hour | **107.67** |
| | Middle management | hour | **60.80** |
| | Professional position | hour | **25.71** |
| | General staff | hour | **16.18** |

## 4.4 Community Responsibility and Contribution

We firmly believe that the development of the Group relies on the resources and support of various sectors of society. Therefore, we actively participate in community welfare activities, hoping to contribute to social welfare. We keenly observe the needs of the local community where we operate and support various forms of social welfare activities such as education and charity, while also actively organising employees to participate in public welfare activities, cultivating their enthusiasm for public welfare and willingness to contribute through volunteer services. During the Reporting Period, the Group has contributed over 500,000 RMB to community initiatives, primarily focusing on projects aimed at caring for children, culture and sports, and rural revitalisation.

3 Trained employees including terminated employees who left the Company during the reporting period.

4 The percentage of employees who received training per category is calculated by the number of employee trained in specific category divided by the total employees as of 31 Dec of the reporting period and then multiplied by 100%. Thus, the percentage of employees who received trainings may exceed 100%.

## Table Tennis Equipment and Electric Vehicle Donation

In order to assist in the revitalisation of rural development, the Group has donated supplies to support public welfare initiatives through the China Foundation for Rural Development. We have donated a total of over 150,000 RMB to the China Foundation for Rural Development, including electric vehicle products. Additionally, as the official partner of the Chinese National Table Tennis Team, the Group not only actively participates in the promotion of sports, but also donates to the foundation specifically for the purchase of table tennis tables and other sports equipment. The aim is to improve the sports facilities in rural schools, allowing more children to enjoy the fun of sports and promoting their physical and mental health development.

## "Luyuan Power, Soaring Dreams"

In August 2023, the Group collaborated with the Jinping City Charity Association (金萍市慈善總會) to organise the third "Luyuan Power, Soaring Dreams" (綠源力量，坐夢飛翔) charity summer camp, aiming to provide learning and growth opportunities for teenagers. The purpose of this event was to provide a platform for teenagers to learn and grow. The summer camp lasted for seven days, with five days being spent in closed accommodation. A total of 30 teenagers from different age groups participated. They engaged in a series of courses combining theory and practice. Through these courses and group activities, they not only enhanced their understanding and collective sense of honor, but also learned "Safety Education Poster Drawing" and "How to Identify and Deal with Emotions" under the guidance of social workers, thereby raising awareness of safety protection and emotional management. During their stay, the students had to take care of various household chores such as laundry and making beds, to cultivate their independence and self-care abilities. This summer camp benefited the students greatly, and we awarded each student a certificate of completion to recognise their growth and efforts.

# 5. ENVIRONMENTAL

As an electric vehicle company, Luyuan Group understands deeply that during the processes of our operations, we must adopt design, production, and management policies that are more in line with sustainable development principles. Therefore, we are committed to optimising the use and management of natural resources and actively advocating for a circular economy to ensure that our business activities minimise the impact on the environment and communities while contributing to a sustainable future. The Group has taken various measures to strike a balance between environmental protection and business development sustainability, and strictly adheres to applicable environmental laws and regulations, including but not limited to the Environmental Protection Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, the Law of the People's Republic of China on Noise Pollution Prevention and Control, the Water Pollution Prevention and Control Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution, and the Management Regulation on Hazardous Wastes Manifests. During the Reporting Period, the Group was not aware of any serious violations of environmental laws and regulations.

Corresponding Sustainable Development Goals:


## 5.1 Energy and Greenhouse Gas Emissions Management

**Energy-saving and emission-reduction initiatives:**

In our efforts to reduce energy consumption and environmental pollution, the Group has undertaken various measures across multiple fronts.

Regarding production equipment, we continuously improve our production processes and equipment to enhance production efficiency while reducing energy consumption. Additionally, we regularly maintain and insulate the heat insulation layer of steam pipelines to minimise heat loss and improve energy utilisation efficiency.

In terms of factory environment, we maximise natural light utilisation by optimising the ratio of wall surface area and the transparent roof area, reducing reliance on artificial lighting. Moreover, we optimise lighting fixtures in certain factory areas, such as material handling zones, finished goods storage areas, and loading zones, by replacing conventional lighting with more energy-efficient LED lights. We implement zoning, grouping, and timed automatic switches in public areas to reduce unnecessary electricity consumption. Some public areas also feature motion-sensing switches or solar-powered lights to further reduce energy consumption while meeting lighting needs. Furthermore, all factories are equipped with first and second-class smart meters to analyse energy usage data, power factors, and subsequent production planning, enabling smart and refined energy management.

The Group prioritises the selection of high-efficiency energy-saving equipment, especially for high-consumption products such as transformers, air conditioners, ventilators, and compressors. We will also select products and equipment that have attained the first level of national energy efficiency and other relevant energy efficiency indicators as important technical indicators to be included in equipment tender documents and procurement contracts.

In terms of company vehicles, we have established a vehicle management process and application standards to reduce the frequency of long-distance car use and avoid unnecessary waste. We also advocate for all employees to commute by bicycle or electric two-wheeled vehicle. All vehicles undergo regular maintenance, use clean gasoline, and comply with vehicle emission standards to reduce exhaust emissions and environmental pollution.

To support the development and use of renewable energy, we have installed advanced photovoltaic ("**PV**") panels at all production bases. In addition to rooftop solar panels, independent PV streetlights have been installed in the factory area, significantly reducing our reliance on traditional energy sources and actively contributing to environmental protection efforts. In 2023, we particularly strengthened the construction of PV power generation facilities at the Shicheng Street factory, significantly increasing the output of renewable energy through the addition of advanced PV panel. Thanks to these high-quality PV facilities, we not only generate a considerable amount of electricity to meet the Company's production needs but also feedback some surplus electricity to the grid for community use. This initiative not only achieves energy sharing but also takes a solid step towards achieving our sustainable development goals.

| | |
|---|---|
| PV panel electricity generation in 2023: **56,930MWh** | Electricity delivered to the city grid by our PV panel: **1,673,000kWh** |
| Carbon emission reduction: **3,246.7 tonnes** of carbon dioxide equivalent | Accumulated revenue: **RMB729,000** |

| PV Streetlights | PV Panels |
|---|---|
|  |  |

**LED Lights of Production Base**

## Energy Management

The group highly values and has implemented multiple measures to ensure the efficient use and conservation of energy. We have established the "Energy Management Regulations," the "Regulations on the Provision and Management of Energy Measurement Instruments," and the "Regulations on Self-inspection and Improvement of Energy Measurement," clearly outlining the responsibilities of each department in energy management. We have standardised the procedures for measurement inspection and assessment, and detailed regulations for the provision and management of measurement instruments.

To enhance the organisation and coordination of energy management, the Group has set up an Energy Management Leadership Team, chaired by the general manager, who is personally responsible for energy management decision-making. The team collaborates closely with other departments to handle and coordinate daily affairs. Part-time energy managers are appointed in each department and workshop to supervise and inspect the energy utilisation of their respective areas. These managers play a crucial role in their daily work, closely monitoring energy usage, promptly identifying problems, and taking measures for improvement.

To ensure the faithful implementation of all energy-saving management measures, we conduct routine energy inspections daily, weekly, and monthly. Daily routine inspections focus on the safe and reasonable use of electricity in each department, and at night, emphasis is placed on inspecting the shutdown of office and production equipment and facilities. Weekly inspections primarily focus on equipment conditions, leak prevention, and verifying electrical safety. Monthly inspections are organised by the Safety and Environmental Protection Department to conduct comprehensive inspections, and statistically analyse resource and energy consumption situations. The main content includes checking for leaks in water and gas pipelines and balancing electricity usage during peak and off-peak periods.

Additionally, the Group organises at least one large-scale energy measurement self-inspection activity annually to assess the effectiveness of energy management. Through these self-inspections, we evaluate the familiarity of each department's measurement managers with energy measurement work and the implementation of energy-saving goals. We also conduct surveys on the energy consumption of individual production equipment to examine whether optimisation of equipment is needed to improve energy utilisation efficiency. Furthermore, we review the storage and periodic calibration of instruments to ensure the accuracy and reliability of measurement instruments.

We impose fines on instances where relevant energy regulations are not adhered to, resulting in significant waste of water and electricity, to strengthen the binding force of energy management. This serves as a reminder for employees and managers to strictly comply with energy management regulations and collectively safeguard the Company's energy interests.

During the Reporting Period, the Group's quality control system has passed ISO 14001 environmental management system certification. This certification not only demonstrates our efforts and achievements in environmental management but also provides strong support for further advancing energy management work.

| Indicators[1] | Unit | 2023 |
|---|---|---|
| **Greenhouse gas[2]** | | |
| Total emission | tonnes of $CO_2$-e | **18,079.9** |
| — Direct emission (Scope 1) | tonnes of $CO_2$-e | **3,894.1** |
| — Indirect emission (Scope 2) | tonnes of $CO_2$-e | **14,081.1** |
| — Indirect emission (Scope 3)[3] | tonnes of $CO_2$-e | **104.8** |
| Total emission | tonnes of $CO_2$-e/ million RMB revenue | **3.6** |
| **Energy** | | |
| Total consumption | MWh | **100,404.0** |
| — Purchased electricity | MWh | **24,690.7** |
| — Renewable energy | MWh | **56,930.0** |
| — Natural gas | '0,000 $m^3$ | **156.9** |
| — Petrol | L | **12,684.9** |
| — Diesel | L | **187,893.9** |
| Total energy intensity | MWh/million RMB revenue | **19.8** |

1. Data is calculated using rounding methods, so there may be deviation in the total number.
2. The calculation method of greenhouse gas emissions is reference to the "Guide to Greenhouse Gas Accounting and Reporting for Land Transportation Companies (Trial)" and the Stock Exchange's "How to Prepare an ESG Report – Appendix 2: Reporting Guidance on Environmental KPIs".
3. Scope 3 emissions includes business travel data. The CO2 emission for air travel is calculated with reference to International Civil Aviation Organization (ICAO) data.

## 5.2 Water Resource Management

The Group firmly believes that water resources are limited and precious, and we adhere to the principle of water conservation, implementing a series of practical and effective measures. Water usage in the Group primarily occurs during the painting and molding process. The Group had no issue in sourcing water that is fit for purpose. To ensure the maximisation of water resources, we have implemented closed-loop water resource management, significantly improving water resource utilisation efficiency. In this process, wash water undergoes multiple cycles of reuse before being collected and treated uniformly by water purification equipment, achieving wastewater reuse. By installing water purification equipment, we have optimised the wastewater that was previously directly discharged to sewage treatment plants to be recycled and reused. Purified wastewater is reused for washing processes or irrigation of plantations, expanding the usage of water resources and reducing the consumption of fresh water. In 2023, wastewater from the Eastern China Base achieved internal circulation through connection with the sewage station, resulting in a weekly discharge frequency of wastewater, saving up to 1,848 tons of water resources.

Additionally, to precisely control water usage, we have optimised the water supply network and installed smart water meters in various areas to help us promptly detect and reduce waste and leakage, achieving refined water management.

In other factory facilities, to achieve water conservation goals, all water equipment is equipped with water-saving switches such as float balls and liquid level sensors. Moreover, sensor switches are used in restrooms to ensure reasonable control of water resources during usage. Through the implementation of these measures, the Company has achieved significant results in reducing water usage, making a positive contribution to sustainable development.

**Water-saving Switches**

**Water Purification Equipment**

| Indicators | Unit | 2023 |
|---|---|---|
| Total water consumption | $m^3$ | **311,607.0** |
| Water resources consumption intensity | $m^3$/million RMB revenue | **61.3** |

## 5.3 Environmental Assessment

The Group has always been committed to protecting the ecological environment and strictly adheres to relevant laws and regulations such as the "Environmental Impact Assessment Law Of The People's Republic Of China", the "Wildlife Protection Law of the People's Republic of China", the "Marine Environmental Protection Law of the People's Republic of China" and the "Law of the People's Republic of China on Noise Pollution Prevention and Control" in all expansion or construction projects. Our goal is to minimise the environmental impact of projects. During the Reporting Period, we commissioned partner companies to conduct environmental impact assessments on the electric vehicle and component manufacturing projects, identifying potential environmental risks associated with the projects and establishing relevant pollution control indicators to ensure strict compliance throughout the project development process.

Furthermore, the Group regularly identifies environmental factors and hazards in the base, offices, and workshops. We detail the products, processes, activities, and services involved in each department or location, carefully examining whether there are factors that may harm the environment in various processes and activities, and conduct in-depth analyses of their importance, timeliness, and status of the impacts. Based on these factors, we take corresponding measures and actions to ensure the effective implementation of environmental protection work.

## 5.4 Waste Water, Air Pollution, and Solid Waste Management

The Group aims to achieve a "Zero-waste Factory" and is committed to reducing the generation of wastewater, air pollution, and solid waste (the "**Three Wastes**"). The Group has formulated the "Three Waste Management Requirements", "Waste Disposal Procedures", "Air Pollution Treatment Procedures" and "Hazardous Waste Disposal Procedures" to strictly monitor and regulate the emission procedures and standards for the three wastes, aiming to minimise environmental damage and pollution while ensuring the health and safety of employees and the public.

### Air Pollution Management

Our main sources of air pollution include exhaust gases from painting processes, drying tunnels, and soldering fumes. To ensure that air pollution emissions meet standards, each process must undergo specific air pollution treatment procedures. All departments must strictly adhere to these procedures during the production process to ensure that air pollution, after treatment, meets emission standards before being released into the atmosphere. To achieve this, the Company has installed an intelligent monitoring system to monitor air pollution emission data in real-time. This includes key indicators such as VOC, ensuring compliance with regulations such as the "Standards of air pollutant discharge in industrial coating process" (DB33/2146–2018) and the "Emission Standard of Atmospheric Pollution of Industrial Furnace" (GB9078–1996). If any non-compliance is detected, the relevant departments must immediately identify the issues and undertake corrective actions on processes or equipment to ensure the effectiveness and compliance of air pollution treatment. After completion of the corrective actions, the air pollution will be re-treated until it meets emission standards. Additionally, we actively promote the use of water-based paints as a substitute for oil-based paints to reduce the generation and emission of organic air pollution.

**Air Pollution Treatment Equipment**

### Wastewater Management

Wastewater mainly originates from domestic sewage and production wastewater. For production wastewater, we implement strict pre-treatment measures. Initially, it undergoes sedimentation treatment in an oil trap to remove grease and suspended solids. Subsequently, it enters the sewage treatment plant for further treatment to ensure compliance before discharge. Domestic sewage is treated through septic tanks to minimise direct environmental impact. To ensure the continuous effectiveness of wastewater treatment, our sewage treatment operators are responsible for daily monitoring and inspection to ensure the normal operation of equipment. Detailed records are maintained for verification purposes. We also conduct real-time monitoring of key data such as wastewater pH, ammonia nitrogen, and chemical oxygen demand at each discharge point to ensure compliance with the requirements of the "Integrated Wastewater Discharge Standards" (GB8978-1996) and the "Emission standard of nitrogen and phosphorus for indirect industrial wastewater discharge" (DB33/887-2013). If any instances of wastewater exceeding standards are detected, the relevant departments will make necessary adjustments and optimisations to the processes or equipment. After completion of corrective actions, the wastewater will re-enter the treatment process until it fully complies with emission standards.

**Wastewater Treatment Equipment**


## Hazardous Waste Management

The hazardous waste generated by the Group mainly includes paint residues, sludge, waste packaging barrels, waste activated carbon, and waste activated carbon fibres. To ensure safe handling, all hazardous waste must be collected in dedicated containers for recycling and temporarily stored in hazardous waste storage areas. We strictly adhere to the "Standard for Pollution Control on Hazardous Waste Storage" (GB18597-2023), categorising various hazardous solid wastes and posting labels containing information such as waste name, code, hazard level, emergency measures, quantity, and date. Additionally, we maintain a hazardous waste management ledger, meticulously recording the entry, exit, and treatment of waste. When the storage volume reaches a certain level, our hazardous waste specialists promptly report and engage qualified partner companies for treatment. Throughout the process, we rigorously manage the quantity of each step's in-and-out movements, ensuring the integrity of ledger records and compliance with filing regulations to guarantee the safe and compliant handling of hazardous waste. We have also installed an online monitoring system for scientific full-process control, monitoring the standardisation of production waste generation, storage and transportation, and transfer and treatment processes through data and video surveillance. We conduct detailed inspections for precise management, aiming to reduce and control the generation of waste.

To minimise the generation of hazardous waste, we have made significant improvements in the painting process. The original spray and activated carbon treatment processes have been upgraded to water spray, dry filtration, zeolite rotary, and regenerative incinerator processes. This transformation not only reduces the procurement and disposal volume of activated carbon but also significantly decreases the disposal volume of paint residues. Additionally, we actively seek harmless alternatives. For example, in the painting process, we have replaced solvent-based acrylic resins containing toxic materials with water-based acrylic resins, reducing the use of raw materials and harmful substances. These measures collectively contribute to achieving our environmental goals and reducing the impact of hazardous waste on the environment.

**Hazardous Waste Storage Area**


### Management of Non-Hazardous Waste and Packaging Materials

Our main non-hazardous waste includes general household garbage and packaging materials. To ensure proper handling of these wastes, we adopt a classification and recycling approach. After sorting and recycling by various units, household garbage and waste packaging materials are stacked at designated transfer stations. Subsequently, they are sold to relevant units for comprehensive utilisation or collected and transported by environmental sanitation departments. Throughout the management process, we adhere to the principle of hierarchical reduction, aiming to minimise waste generation at the source, followed by utilisation, recycling, and reprocessing of waste, with disposal as the last resort. For example, we actively encourage staff to classify household garbage, promote electronic and paperless offices, and encourage the reuse of office paper.

Additionally, for paper boxes and materials used as raw material accessories, we work with property management companies to classify and recycle them. Simultaneously, we collaborate with supporting manufacturers to promote the use of turnover-circulating material boxes and tray packaging instead of traditional paper box packaging, effectively reducing the generation of packaging materials. Through these measures, we strive to minimise the environmental impact of non-hazardous waste.

**Recycling bin facility in the factory**


| Indicators | Unit | 2023 |
|---|---|---|
| **Air Pollution Emissions**[4] | | |
| Nitrogen oxides | kg | **3,709.0** |
| Sulphur oxides | kg | **865.8** |
| Particulate matter | kg | **368.0** |
| **Wastewater Discharge** | | |
| Total wastewater Discharge | tonnes | **58,992.0** |
| **Waste** | | |
| Total hazardous waste generation[5] | tonnes | **0.0043** |
| Hazardous waste generation intensity | kg/million RMB revenue | **0.84** |
| Total non-hazardous waste generation[6] | tonnes | **2,421.8** |
| Total recycling of non-hazardous waste[7] | tonnes | **5.2** |
| Non-hazardous waste generation intensity | kg/million RMB revenue | **476.4** |
| **Packaging materials used for finished products** | | |
| Packaging material consumption | tonnes | **305,956.6** |
| Packaging material consumption intensity | kg/million RMB revenue | **60.2** |

4 Air Pollution Emissions originate from vehicle exhaust emissions and natural gas combustion during production processes.

5 Hazardous Waste includes waste batteries, discarded ink cartridges, discarded toner cartridges, discarded components, and discarded electrical appliances.

6 Non-hazardous Waste includes discarded paper, household garbage, and discarded plastics.

7 The recycled non-hazardous waste includes recycled paper.

## 5.5 Response to Climate Change

The Group recognises the potential impact of climate change on our business. To embody the concept of carbon neutrality, we integrate this into our product and development decisions, while also committing to managing physical and transition risks arising from climate change. We formulate development strategies tailored to the industry's characteristics to enhance the Company's ability to respond to climate change. To identify and manage climate change-related risks and opportunities, we refer to the recommendations of the Task Force on Climate-related Financial Disclosures (the "**TCFD**") and have assessed the direct and indirect impacts of climate change on our business operations. The table below outlines the climate-related risks and opportunities faced by the group, as well as the actions taken in the current year.

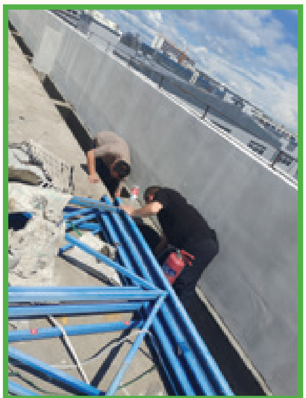
| Types | Risk | Risk Description | Potential Impact | Our Actions |
|---|---|---|---|---|
| Physical Risk | Acute Risk | Frequent occurrences of extreme weather events such as typhoons, heavy rain, and floods may impact the safety of company buildings and equipment, prolong employee commuting times, and have certain implications for employee safety and the normal operation of the enterprise. | Increase in operation cost<br><br>Reduce in revenue | In response to extreme weather events, we have developed the Four Preventive Measures (typhoon prevention, lightning protection, heatstroke prevention, and fire prevention) and regularly provide relevant safety training for employees to enhance their ability to cope with extreme weather events. |
| | Chronic Risk | Continuously high temperatures resulting from global warming may increase the energy consumption of the Company's cooling equipment, such as air conditioning. | Increase in operation cost | |

| Types | Risk | Risk Description | Potential Impact | Our Actions |
|---|---|---|---|---|
| Transition Risk | Policy and Regulatory Risks | The increasing and enhancing of international and domestic climate change-related policies may lead to the Company incurring additional costs to ensure compliance. | Increase in compliance costs | We regularly monitor the development trends of laws and regulations to ensure compliance in our operations. |
| | Technology Risk | The transition to a low-carbon economy typically requires significant investments in research and development to develop new technologies and innovative solutions. The Group's efforts in technology development and investment may not yield the expected results, necessitating the allocation of substantial resources to R&D, focusing on the development of electric motorcycles or other low-carbon propulsion systems. | Increase in R&D costs<br><br>Increase in operation cost | We will assess our existing technology portfolio and evaluate the potential gaps and opportunities for transitioning to a low-carbon economy. This assessment will help identify areas where increased innovation costs are needed and prioritise research and development investments accordingly. |
| | Market Risk | Due to the highly concentrated and competitive nature of the mainland electric vehicle market, if competitors have stronger financial and R&D resources and can offer cleaner products at lower costs, our business performance and prospects may be adversely affected. | Increase in marketing expenses<br><br>Reduce in revenue | We closely follow industry trends and dedicate significant resources to research and development to increase the autonomy of our products, maintain our technological advantage, and continue driving technological development and innovation in the electric two-wheeled vehicle market. |
| Opportunities | Products | With carbon-neutral strategies and green travel policies being continuously implemented worldwide, the pace of phasing out traditional motorcycles will accelerate. The demand for electric two-wheeled vehicle will continue to grow, fuelled by national policies actively supporting the development of the new energy vehicle industry. This support will aid in driving the production and development of electric vehicle products. | Increase in revenue | Through research and development, we are committed to creating high-quality, durable, and high-performance electric two-wheeled vehicle products. We continue to invest in core technologies and applications for electric two-wheeled vehicles to enhance our research and development capabilities and market competitiveness. |

### Four Preventive Measures

To ensure employee safety and factory stability, we have implemented comprehensive and detailed preventive measures for four unpredicted hazards — typhoons, lightning strikes, heatstroke, and fire prevention. Once extreme weather warnings such as typhoons or heavy rain are issued by the meteorological department, we immediately activate our alert inspection procedures. Additionally, we provide employees with training on the four preventive measures, covering precautions against typhoons, lightning strikes, symptoms and first aid for heatstroke, as well as basic fire extinguishing and evacuation knowledge, to enhance overall safety awareness and emergency response capabilities.

In July 2023, following the announcement of Typhoon Saola by the meteorological department, the logistics service department of our factory promptly notified dormitory staff to clear balcony debris to prevent potential safety hazards from falling objects at height. Simultaneously, a hazard inspection team was established within the factory to conduct detailed inspections of outdoor areas, addressing hazards such as easily toppling objects, falling hazards, and flood-prone areas promptly. We also conducted special cleaning of drainage channels and sewer openings to ensure unobstructed drainage and prevent flooding. Thanks to our diligent inspection efforts and regular training programmes, we successfully avoided any significant losses during the typhoon season during the Reporting Period.



## 5.6 Innovative Green Technologies

Luyuan vehicle has always adhered to the concept of "A Ten-Year Ride Vehicle" (一部車騎十年), promoting the transformation of electric vehicles from consumable to durable goods. We are committed to developing innovative green technologies to enhance product durability, extend lifecycle, reduce waste and carbon emissions, improve carbon footprint, and contribute to environmentally friendly travel.

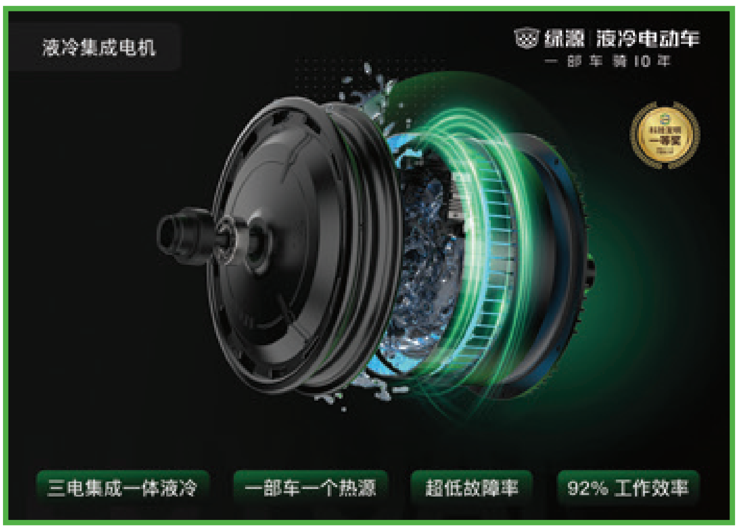
### Building Durable Quality with Three Core Technologies

In the electric vehicle industry, durability has always been one of the most concerning issues for consumers. To address this problem, Luyuan vehicle has introduced three core technologies — Liquid-Cooled Motor 2.0, Air-Cooled Controller, and Fast Charger, comprehensively optimising products and components' lifecycle from the aspects of motor, controller, and charger.

In terms of the motor, the Liquid-Cooled Motor 2.0 adopts liquid cooling technology and graphene heat dissipation coating, significantly enhancing heat dissipation effect with a maximum temperature reduction of up to 38°C, achieving a working efficiency of up to 92%, effectively improving energy efficiency. Additionally, the motor is equipped with a gas exchange system, capable of regulating the pressure difference inside and outside the motor, absorbing moisture during the gas exchange process, and achieving waterproof and rust-proof effects.

In terms of the controller, our Air-Cooled Controller utilises graphene heat dissipation coating and integrated packaging technology, ensuring full fixation and protection of internal components, enhancing the controller's heat conduction, waterproof, and shock resistance. Cooling efficiency is increased by 25%, and the dustproof and waterproof rating reaches IP68, ensuring stable operation of the controller in various harsh environments, further enhancing the durability of electric vehicles.

In terms of the charger, in addition to using double-layer casing and integrated packaging technology, our Fast Charger can intelligently sense environmental temperature and automatically adjust the charging voltage. During winter charging, it enters low-temperature compensation charging mode to ensure the battery is fully charged; while in summertime charging, it activates automatic overcharge protection mode to extend battery life. This intelligent charging technology not only improves charging efficiency but also effectively protects the battery, extending its lifespan.



### Electric Vehicle Carbon Footprint

With increasing global awareness of environmental protection, low-carbon products hold stronger appeal to consumers. In support of the development of a low-carbon economy and to promote green low-carbon behaviours, the Group calculated the carbon footprint of our electric bicycle model TDT2093Z for the first time in 2022, across its entire lifecycle.

TDT2093Z is an electric bicycle that combines long endurance with durability. It features recyclable aluminium alloy hubs, which are not only corrosion-resistant but also rust-free, effectively extending the product's lifespan. Additionally, it equips with a 48V26AH lithium battery and offers a maximum range of up to 40 km, providing users with a more convenient travel experience.

Product carbon footprint certification not only reveals the greenhouse gas emissions of the electric bicycle throughout its lifecycle but also helps us identify high environmental-cost segments. This will drive us to undertake technological innovations and optimise production processes to achieve significant emission reductions and carbon reductions. This initiative not only helps us discover emission reduction potentials and enhance competitiveness but also demonstrates our active response to national policies and fulfilment of social responsibilities, contributing to enhancing the brand value and image of the enterprise.


# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING INDEX

| Indicator | HKEX ESG Reporting Guide Requirements | Section/Remarks |
|---|---|---|
| **Governance Structure** | | |
| General Disclosure | A statement from the board containing the following elements:<br><br>(i) a disclosure of the board's oversight of ESG issues;<br><br>(ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and<br><br>(iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses. | 1.5 Statement from the Board |
| **Reporting Principles** | | |
| General Disclosure | A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG report:<br><br>**Materiality:** The ESG report should disclose: (i) the process to identify and the criteria for the selection of material ESG factors; (ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement.<br><br>**Quantitative:** Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable) should be disclosed.<br><br>**Consistency:** The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison. Reporting Boundary | 1.2 Reporting guidelines and principles |

| Indicator | HKEX ESG Reporting Guide Requirements | Section/Remarks |
|---|---|---|
| **Reporting Scope** | | |
| General Disclosure | A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change. | 1.1 Reporting boundary |
| **A. ENVIRONMENTAL** | | |
| **Aspect A1: Emissions** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | 5 Environmental |
| KPI A1.1 | Types of emissions and related emission data. | 5.1 Energy and Greenhouse Gas Emissions Management |
| KPI A1.2 | Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and intensity. | 5.1 Energy and Greenhouse Gas Emissions Management |
| KPI A1.3 | Total hazardous waste produced and intensity. | 5.4 Waste Water, Air Pollution, and Solid Waste Management |
| KPI A1.4 | Total non-hazardous waste produced and intensity. | 5.4 Waste Water, Air Pollution, and Solid Waste Management |
| KPI A1.5 | Describe the emissions targets set and the steps taken to achieve them. | 5.1 Energy and Greenhouse Gas Emissions Management |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | 5.4 Waste Water, Air Pollution, and Solid Waste Management |

| Indicator | HKEX ESG Reporting Guide Requirements | Section/Remarks |
|---|---|---|
| **Aspect A2: Use of Resource** | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | 5 Environmental |
| KPI A2.1 | Direct and/or indirect energy consumption and intensity. | 5.1 Energy and Greenhouse Gas Emissions Management |
| KPI A2.2 | Water consumption and intensity. | 5.2 Water Resource Management |
| KPI A2.3 | Description of energy use efficiency target(s) set and steps taken to achieve them. | 5.1 Energy and Greenhouse Gas Emissions Management |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | 5.2 Water Resource Management |
| KPI A2.5 | Total packaging material used for finished products (in tonnes), and if applicable, with reference to per unit produced. | 5.4 Waste Water, Air Pollution and Solid Waste Management |
| **Aspect A3: The Environment and Natural Resources** | | |
| General Disclosure | Policies on minimising the issuer's significant impacts on the environment and natural resources. | 5.3 Environmental Assessment |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | 5.3 Environmental Assessment |
| **Aspect A4: Climate Change** | | |
| General Disclosure | Policies on identification and mitigation of significant climate-related issues which have impacted,and those which may impact, the issuer. | 5.5 Response to Climate Change |
| KPI A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | 5.5 Response to Climate Change |

| Indicator | HKEX ESG Reporting Guide Requirements | Section/Remarks |
|---|---|---|
| **B. SOCIAL** | | |
| **Aspect B1: Employment** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | 4.1 Employee Rights and Benefits |
| KPI B1.1 | Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region. | 4.1 Employee Rights and Benefits |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | 4.1 Employee Rights and Benefits |
| **Aspect B2: Health and Safety** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | 4.2 Occupational Health and Safety |
| KPI B2.1 | Number and rate of work-related fatalities occurred in each of the past three years including the reporting year. | 4.2 Occupational Health and Safety |
| KPI B2.2 | Lost days due to work injury. | 4.2 Occupational Health and Safety |
| KPI B2.3 | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | 4.2 Occupational Health and Safety |

| Indicator | HKEX ESG Reporting Guide Requirements | Section/Remarks |
|---|---|---|
| **Aspect B3: Development and Training** | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | 4.3 Talent Cultivation and Development |
| KPI B3.1 | Percentage of employees trained by gender and type of employee (e.g. senior management, middle management). | 4.3 Talent Cultivation and Development |
| KPI B3.2 | Average number of hours of training completed per employee, broken down by sex and type of employee. | 4.3 Talent Cultivation and Development |
| **Aspect B4: Labour Standards** | | |
| General Disclosure | For the prevention of child or forced labour:<br>(a) policy;<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to preventing child and forced labour. | 4.1 Employee Rights and Benefits |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | 4.1 Employee Rights and Benefits |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | 4.1 Employee Rights and Benefits |
| **Aspect B5: Supply Chain Management** | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | 3.5 Sustainable Supply Chain |
| KPI B5.1 | Number of suppliers by geographical region. | 3.5 Sustainable Supply Chain |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored. | 3.5 Sustainable Supply Chain |
| KPI B5.3 | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | 3.5 Sustainable Supply Chain |
| KPI B5.4 | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | 3.5 Sustainable Supply Chain |

| Indicator | HKEX ESG Reporting Guide Requirements | Section/Remarks |
|---|---|---|
| **Aspect B6: Product Responsibility** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer<br>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | 3.2 Quality Control<br>3.3 Intellectual Property Protection<br>3.4 Customer Rights Protection |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | 3.2 Quality Control |
| KPI B6.2 | Number of products and service-related complaints received and how they are dealt with. | 3.4 Customer Rights Protection |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | 3.3 Intellectual Property Protection |
| KPI B6.4 | Description of quality assurance process and recall procedures. | 3.2 Quality Control |
| KPI B6.5 | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | 3.4 Customer Rights Protection |
| **Aspect B7: Anti-corruption** | | |
| General Disclosure | Information on:<br>(a) the Policy; and<br>(b) Compliance with relevant laws and regulations that have a significant impact on the issuer information<br>relating to bribery, extortion, fraud and money laundering. | 3.1 Business Ethics and Anti-Corruption |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practises brought against the issuer or its employees during the reporting period and the outcomes of the cases. | 3.1 Business Ethics and Anti-Corruption |

| Indicator | HKEX ESG Reporting Guide Requirements | Section/Remarks |
|---|---|---|
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | 3.1 Business Ethics and Anti-Corruption |
| KPI B7.3 | Description of anti-corruption training provided to directors and employees. | 3.1 Business Ethics and Anti-Corruption |
| **Aspect B8: Community Investment** | | |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | 4.4 Community Responsibility and Contribution |
| KPI B8.1 | Focus areas of contribution. | 4.4 Community Responsibility and Contribution |
| KPI B8.2 | Resources contributed to the focus area. | 4.4 Community Responsibility and Contribution |

# DIRECTORS' REPORT

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended December 31, 2023.

## GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on February 18, 2009 as an exempted company with limited liability under the Companies Act. The Shares were listed on the Main Board of the Stock Exchange on the Listing Date.

## PRINCIPAL ACTIVITIES

The Company is the holding company of the Group. The Group is an electric two-wheeled vehicle provider in mainland China which principally engages in design, research and development, manufacturing and selling of electric two-wheeled vehicles. Details of the principal activities of the subsidiaries of the Company are set out in note 11 to the consolidated financial statements.

## BUSINESS REVIEW

The business review and performance analysis of the Group for the year ended December 31, 2023 as required by Schedule 5 to the Companies Ordinance is set out in the sections headed "Chairman's Statement" from pages 10 to 12 and "Management Discussion and Analysis — Business Review" from pages 13 to 14 of this annual report which constitute part of this directors' report.

## OUTLOOK FOR 2024

In the year ending December 31, 2024, the Group will continue to pursue the following: (i) enhancing the Group's research and development capabilities; (ii) enhancing the Group's production capacity by establishing a new production facility in Chongqing City, the PRC; (iii) enhancing brand awareness; and (iv) upgrading, expanding and optimizing the layout of the Group's sales and distribution network. Further discussion of the future development in the Group's business is set out in the sections headed "Chairman's Statement" from pages 10 to 12 and "Management Discussion and Analysis — Outlook" from pages 14 to 15 of this annual report respectively which constitute part of this directors' report.

# KEY RELATIONSHIPS

## Relationship with Suppliers

With the aim of obtaining high quality supplies from reliable sources, the Company only selects suppliers from its accredited suppliers list after careful and thorough evaluation and assessment covering a range of criteria, including production capacity, quality control, innovation, technical strength, financial conditions and market reputation. In order to strengthen the business relationships and further secure sufficient supplies of its quality raw materials and advanced components, the Company may also enter into strategic cooperative agreements with key suppliers, pursuant to which the Company is able to secure exclusive supply rights for advanced or patented components of such suppliers and co-develop or improve such components with them to be applied to the Group's electric two-wheeled vehicles. Further, in case of critical bottleneck supplies, the Company may also enter into exclusive supply arrangements with key suppliers and have multiple suppliers or suppliers with multiple technical solutions while taking their geographic location into account to minimize any potential disruption in the Group's operations, maintain sourcing stability and/or avoid over-reliance risk.

For the year ended December 31, 2023, the total purchases from the Company's five largest suppliers in aggregate accounted for approximately 31.94% of its total purchases, and the Company's purchases from its largest supplier accounted for approximately 16.80% of its total purchases. The Company did not experience any material disruption in the delivery of its products or suffer any loss as a result of delays in delivery or poor handling of goods that had any material adverse impact on the Company's business or results of operations during the year ended December 31, 2023.

As of the Latest Practicable Date, none of the Directors, their close associates or any of the Shareholders (who owned or to the knowledge of Directors had owned more than 5% of the Company's issued share capital) had any interest in any of the Company's five largest suppliers that is required to be disclosed under the Listing Rules for the year ended December 31, 2023.

## Relationship with Customers

The Company's customers are primarily its distributors in mainland China, international distributors, corporate and institutional clients and end customers from its self-operated online stores. Revenue derived from the five largest customers of the Company accounted for less than 30% of the Company's total revenue for the year ended December 31, 2023.

### Relationship with Employees

The Group recognizes its employees as prominent assets for its development and it places great importance on attracting and recruiting qualified employees. The remuneration of employees was based on their performance, skills, knowledge, experience and market trend. The Group reviews the remuneration policies and packages on a regular basis and will make necessary adjustment commensurate with the pay level in the industry. In addition to basic salaries, employees may be offered with discretionary bonus, cash awards and share awards based on individual performance. The Group provides training periodically and across operational functions, including introductory training for new employees, technical training, product training, management training and work safety training, with a view to fostering the basic skills of new employees to perform their duties and to improving the relevant skills of the existing employees as well. In order to incentivize employees for their contribution to the Company and to attract and retain skilled and experienced personnel, the Company has adopted the Pre-IPO Share Scheme and conditionally adopted the Post-IPO Share Scheme to grant share awards and share options, as the case may be, to qualified employees as incentives, details of which are set out in the section headed "Share Schemes" in this directors' report.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is dedicated to upholding its social responsibilities by safeguarding the environment, prioritizing employee well-being and growth, supporting the community, and striving for sustainable development. Information about the Company's ESG policies and performance during the year ended December 31, 2023 has been set out in the section headed "Environmental, Social and Governance Report" in this annual report.

## LICENCES, REGULATORY APPROVALS AND COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended December 31, 2023, the Group has not committed any material breaches or violations of relevant laws and regulations in the PRC, where the Group has business entities and operations, and the Group has duly obtained licenses, permits and approvals from relevant government authorities that are material to its business operations in mainland China. Details of the Group's compliance with relevant laws and regulations has been set out in the section headed "Environmental, Social and Governance Report" in this annual report.

## PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors may affect the results and business operation of the Group. The principal risks and uncertainties that the Group faces and key mitigations that the Group adopts are summarized as follows:

| Principal Risks and Uncertainties | Description | Key Mitigations |
|---|---|---|
| Risks related to quality issues of the Group's products and the electric two-wheeled vehicle industry | Maintaining consistent product quality depends significantly on the effectiveness of the Group's quality control systems. However, the Group's quality control system may not be able to identify all defects at all times or in a timely manner and any defects of the Group's products or electric two-wheeled vehicles may cause property damage or personal injury, increase in level of product returns, increase in product liability claims, all of which could damage the Group's market reputation and affect its financial and business conditions. | As part of its internal quality control procedure, the Group adopts design failure mode and effect analysis for its new products and technologies. The Group carries out a number of tests with its products including road testing, ash testing, inspection and testing and modify its product design and manufacture process based on the test results with a view to controlling the impacts of any latent defects. Further, the Group will establish a graded quality inspection system to optimize the flow of the technical process and improve the static and dynamic testing processes before launching its products. The Group will conduct user testing and collect user feedback throughout the product life cycle and establish a user research department and a user feedback data centre. The Group will improve the supplier management system. Specifically, for key components or components that are of an unstable quality, the Group will assign dedicated personnel to supervise on-site and ensure that the raw materials and craftsmanship are up to standard, as well as to assist suppliers in optimizing the production and quality control processes. The Group will also carry out actions among all of its staff to enhance the quality of its products. |

| Principal Risks and Uncertainties | Description | Key Mitigations |
|---|---|---|
| Risks related to damage to the Group's brand, trademarks or reputation, or failure to effectively promote the Group's brand | The Group's success largely depends on the popularity of its "*Luyuan*" brand which it uses for marketing and promotion, and its reputation for electric two-wheeled vehicles.<br><br>Product defects, ineffective customer services, product liability claims, consumer complaints, intellectual property infringement, lawsuits brought against the Group by third parties for trade mark infringement, or negative publicity or media reports against the Group or its products, even if meritless or immaterial, may divert the Group's management's attention and other resources from day-to-day business operation and could cause harm to the Group's brand and reputation, as well as competitive position. Besides, unauthorized use of trademarks by the Group's distributors, who are only authorized to display the Group's brand name or trademarks at their retail outlets or when marketing the Group's products, may harm the Group's reputation and brand image. Furthermore, if end users perceive or experience a reduction in the quality of the Group's products, or consider in any way that the Group fails to deliver consistently high quality products, the Group's brand value could suffer, which could have a material and adverse effect on the Group's business. | The Group will protect its trademarks by carry out formal trademark registrations. Specifically, the Group will categorize its trademarks, product trademarks and technical trademarks and make domestic and overseas trademark registrations for its principal business activities in accordance with the system of International Classification of Goods and Services for the Purposes of the Registration of Marks established by the Nice Agreement. The Group also plans to carry out protective trade mark registrations for similar trademarks. In addition, the Group will engage third parties to monitor if there is any infringement of its rights. In particular, the Group will monitor if there are situations where trademarks that are already in use by the Group have been registered, or situations of trademark infringement or registration of similar trademarks, and protect its rights and interests through objection, withdrawal and prosecution. |

| Principal Risks and Uncertainties | Description | Key Mitigations |
|---|---|---|
| Uncertainty to successfully implement the Group's future business plans and strategies | The Group's business plans and strategies are formulated based on assumptions of future events, which carry inherent uncertainties and potential risks. In case of failure to effectively implement its business plans and strategies, the Group may face challenges in expanding, managing growth, seizing market opportunities, and staying competitive. Even if they are implemented effectively, there may be other unexpected events or factors that prevent the Group from achieving the desirable and profitable results, thereby negatively affect its business, financial conditions, results of operations and prospects. | The Group will continue to pay attention to policies related to international trade, new energy and electric vehicle industries, carry out in-depth communications with relevant major departments to understand the industry development and participate in the next stage of development planning. The Group will also monitor the policy requirements, technical development and raw material prices for key links in the supply chains, such as for batteries and raw materials. The Group will learn about the prominent cooperative projects of the major players in the industry and timely adjust its business and implementation strategies. The Group will monitor and analyze the industry technology trend and consumption trend. The Group will also seek for users and major distributors for its new products and conduct an analysis and evaluation of its new projects. |

## SUBSEQUENT EVENT

Particulars of material subsequent events affecting the Group that have occurred since the year ended December 31, 2023 are stated in note 40 to the consolidated financial statements and the section headed "Management Discussion and Analysis — Events after the Reporting Period" in this annual report.

## FINANCIAL STATEMENTS

The results of the Group for the year ended December 31, 2023 and the state of the Group's financial position as at that date are set out in the consolidated financial statements from pages 145 to 240 of this annual report.

### Final Dividend

The Board has resolved not to recommend the payment of final dividend for the year ended December 31, 2023.

### Distributable Reserves

As of December 31, 2023, the Company had distributable reserves of RMB707.0 million.

### Reserves

Changes to the reserves of the Group during the year ended December 31, 2023 are set out in the consolidated statement of changes in equity in this annual report.

### Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year ended December 31, 2023 are set out in note 14 to the consolidated financial statements in this annual report.

### Share Capital

Details of movements in the share capital of the Company during the year ended December 31, 2023 are set out in note 33 to the consolidated financial statements in this annual report.

### Bank Borrowings and other Loans

Details of bank borrowings and other loans of the Group as at December 31, 2023 are set out in note 32 to the consolidated financial statements of this annual report.

### Donation

Donations made by the Group during the year ended December 31, 2023 was RMB520,000.

### Financial Summary

A summary of the published results and of the assets and liabilities of the Group for the last four financial years is set out in the section headed "Four-year Financial Summary" on page 9 of this annual report. This summary does not form part of the audited consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended December 31, 2023 and up to the date of this annual report, except for the Global Offering, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

## SHARE SCHEMES

### Pre-IPO Share Scheme

Pursuant to the written resolutions passed by the Board on July 20, 2023, the Company has adopted the Pre-IPO Share Scheme. The following is a summary of the principal terms of the Pre-IPO Share Scheme.

The purpose of the Pre-IPO Share Scheme is: (i) to provide the Company with a flexible means of attracting, remunerating, incentivising, retaining, rewarding, compensating and/or providing benefits to Pre-IPO Eligible Participants (as defined below); (ii) to align the interests of Pre-IPO Eligible Participants with those of the Company and Shareholders by providing such Pre-IPO Eligible Participants with the opportunity to acquire proprietary interests in the Company and become Shareholders; and (iii) to encourage Pre-IPO Eligible Participants to contribute to the long-term growth, performance and profits of the Company and to enhance the value of the Company and its Shares for the benefit of the Company and Shareholders as a whole.

Any person of any one of the following categories and as determined by the Board or the scheme administrator from time to time shall be eligible to participate in the Pre-IPO Share Scheme:

(i) an employee (whether full-time or part-time or other employment relationship), director or officer of any member of the Group on the grant date;

(ii) an employee (whether full-time or part-time or other employment relationship), director or officer of: (a) a holding company of the Company; (b) subsidiaries of such holding company other than members of the Group; or (c) any company that is an associate of the Company; or

(iii) any person(s) providing services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long-term growth of the Group as determined by the scheme administrator (collectively the "**Pre-IPO Eligible Participants**").

The initial total number of new Shares which may be issued pursuant to all awards to be granted under the Pre-IPO Share Scheme (the "**Pre-IPO Awards**", and the term "**Pre-IPO Award**" shall be construed accordingly) is 1,673,600 Shares (the "**Pre-IPO Scheme Mandate Limit**"). The Pre-IPO Scheme Mandate Limit was adjusted to 16,736,000 Shares pursuant to the terms of the Pre-IPO Share Scheme upon the completion of the Capitalization Issue, representing approximately 3.92% of the total issued Shares as of the date of this annual report. Under the Pre-IPO Share Scheme, there is no specific limit on the maximum number of Shares which may be granted to a single Pre-IPO Eligible Participant.

The Pre-IPO Share Scheme shall be valid and effective for the period of 10 years commencing on the adoption date of the Pre-IPO Share Scheme on July 20, 2023 (the "**Pre-IPO Scheme Adoption Date**") and ending on the tenth anniversary of the Pre-IPO Scheme Adoption Date (the "**Pre-IPO Scheme Period**"). As of the date of this annual report, the remaining life of the Pre-IPO Share Scheme is approximately 9 years and 3 months. It shall terminate on the earlier of the expiry of the Pre-IPO Scheme Period and such date of early termination as determined by the Board, provided that notwithstanding such termination, the Pre-IPO Share Scheme and the rules therein shall continue to be valid and effective to the extent necessary to give effect to the vesting and exercise of any Pre-IPO Awards granted prior to the termination of the Pre-IPO Share Scheme and such termination shall not affect any subsisting rights already granted to any grantee hereunder.

The Board shall be responsible for administering the Pre-IPO Share Scheme in accordance with the rules of the Pre-IPO Share Scheme. The authority to administer the Pre-IPO Share Scheme may be delegated by the Board to a committee of the Board or to any other person(s) deemed appropriate at the sole discretion of the Board, including its powers to offer or grant Pre-IPO Awards and to determine the terms and conditions of such Pre-IPO Awards, provided that nothing in this section shall prejudice the Board's power to revoke such delegation at any time or derogate from the discretion rested with the Board. Under the Pre-IPO Share Scheme, the scheme administrator may determine in their absolute discretion the amount (if any) payable on application or acceptance of a Pre-IPO Award and the period within which any such payments must be made, and such amounts (if any) and periods shall be set out in the award letter.

Since the adoption of the Pre-IPO Share Scheme, share options were granted to a total of 108 Pre-IPO Eligible Participants to acquire a total of 16,736,000 Shares (as adjusted in accordance with the terms of the Pre-IPO Share Scheme upon the Capitalization Issue) and no share awards have been granted under the Pre-IPO Share Scheme. No consideration was payable for the grants of options under the Pre-IPO Share Scheme. Under the terms of the Pre-IPO Share Scheme, no share options and share awards may be granted by the Company upon or after the Listing. As such, the provisions of Chapter 17 of the Listing Rules do not apply to the terms of the Pre-IPO Share Scheme.

As of December 31, 2023, options which corresponded to an aggregate of 16,736,000 underlying Shares, representing 3.92% of the total issued Shares as of the date of this annual report, remained outstanding to a total of 108 Pre-IPO Eligible Participants.

The Company may establish one or more trusts and appoint one or more trustees to hold Shares for the purposes of: (i) holding Shares underlying Pre-IPO Awards (which may be Shares newly allotted and issued by the Company or existing Shares purchased or acquired on-market or off-market by the trustee(s) under the trust or existing Shares transferred by any Shareholder(s) to the trustee(s) under the trust for the purpose of implementation of the Pre-IPO Share Scheme at nil consideration or otherwise) and reserved for specified Pre-IPO Eligible Participants; (ii) settling Pre-IPO Awards; and (iii) taking other actions for the purposes of administering and implementing the Pre-IPO Share Scheme. Under the Pre-IPO Share Scheme, the trustee(s) holding unvested Shares under the trust shall abstain from voting on matters that require shareholders' approval under the Listing Rules, unless otherwise required by law to vote in accordance with the beneficial owner's direction and such a direction is given.

The Board has appointed Futu Trustee Limited to act as trustee to assist with the administration of the Pre-IPO Share Scheme. As of December 31, 2023, 16,736,000 Shares were held by Yuan V Holdings Limited (a trust company wholly-owned by a trust in which the Company is the settlor, Futu Trustee Limited acts as trustee and the beneficiaries are grantees of the Pre-IPO Share Scheme) for the purpose of settling options when exercised under the Pre-IPO Share Scheme. No new Shares will be issued upon vesting or exercising of the options granted under the Pre-IPO Share Scheme.

As the Pre-IPO Share Scheme was adopted on July 20, 2023, the number of options and awards available for grant pursuant to the Pre-IPO Scheme Mandate Limit under the Pre-IPO Share Scheme is nil as of January 1, 2023. As of December 31, 2023, the number of options and awards available for grant pursuant to the Pre-IPO Scheme Mandate Limit under the Pre-IPO Share Scheme is nil and no Shares were available for issue under the Pre-IPO Share Scheme.

Details of the Pre-IPO Awards granted to the Pre-IPO Eligible Participants under the Pre-IPO Share Scheme during the year ended December 31, 2023 are set out below:

| Name/Category of the grantees | Outstanding as at January 1, 2023 | Options granted during the year[Note 1] | Date of grant | Exercised during the year[Note 2] | Cancelled during the year | Lapsed during the year | Number of outstanding Shares underlying the options granted as at December 31, 2023 | Exercise price (HK$)[Note 3] | Fair value of the options at the date of grant during the year (HK$) | Vesting period | Exercise period |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | | | | | |
| Chen Guosheng | – | 1,726,600 | July 20, 2023 | – | – | – | 1,726,600 | 0 | 10,307,802 | *See Note 4* | From the date that is six months after the Listing Date to July 19, 2033 |
| ***Subtotal*** | – | 1,726,600 | | – | – | – | 1,726,600 | 0 | – | | |
| **Five highest paid individuals** | | | | | | | | | | | |
| Five highest paid individuals during the year ended December 31, 2023 in aggregate[Note 5] | – | 3,129,400 | July 20, 2023 | – | – | – | 3,129,400 | 0 | 18,682,518 | *See Note 4* | From the date that is six months after the Listing Date to July 19, 2033 |
| ***Subtotal*** | – | 3,129,400 | | – | – | – | 3,129,400 | 0 | – | | |
| **Other employees of the Group** | | | | | | | | | | | |
| Other grantees in aggregate (excluding the five highest paid individuals during the year ended December 31, 2023 as disclosed above) | – | 13,606,600 | July 20, 2023 | – | – | – | 13,606,600 | 0 | 81,231,402 | *See Note 4* | From the date that is six months after the Listing Date to July 19, 2033 |
| **Total** | – | 16,736,000 | | – | – | – | 16,736,000 | | | | |

Notes:

(1) Representing the number of the underlying Shares correspond to the options granted after the Capitalization Issue. As Shares have not been listed on the Stock Exchange as at the date of grant of all the options granted under the Pre-IPO Share Scheme, the closing price of the Shares immediately before the date on which the options were granted under the Pre-IPO Share Scheme is not available.

(2) The exercise period of options granted under the Pre-IPO Share Scheme is from the date that is six months after the Listing Date. Accordingly, as options are not exercisable as of the date of this annual report, the weighted average closing price of the Shares immediately before the date on which the options were exercised under the Pre-IPO Share Scheme is not available.

(3) To align with the purposes of the Pre-IPO Scheme to remunerate, incentivize, retain, reward, compensate and/or provide benefits to Pre-IPO Eligible Participants, the exercise price of the options under the Pre-IPO Share Scheme has been determined as nil.

(4) The share options granted under the Pre-IPO Share Scheme are to vest in accordance with the following vesting schedule: (a) 10% of the share options are to vest on the first anniversary of the Pre-IPO Scheme Adoption Date; (b) 20% of the share options are to vest on the second anniversary of the Pre-IPO Scheme Adoption Date; (c) 30% of the share options are to vest on the third anniversary of the Pre-IPO Scheme Adoption Date; and (d) 40% of the share options are to vest on the fourth anniversary of the Pre-IPO Scheme Adoption Date.

(5) One of the five highest paid individuals in the Group for the year ended December 31, 2023 is Mr. Chen Guosheng, an executive Director. The details regarding the Pre-IPO Award granted to him are disclosed in the above table.

(6) For further details regarding the fair value of the options, see notes 2.25 and 34 to the consolidated financial statements in this annual report.

(7) Under the Pre-IPO Share Scheme, grantees are required to attain an individual performance rating of level C or above for any appraisal(s) during a certain time period as a performance target before the share options granted can be vested. Such individual performance rating and the time period of appraisal(s) shall be determined at the discretion of the scheme administrator.

Further details of the principal terms of the Pre-IPO Share Scheme are set out in the section headed "Statutory and General Information — D. Share Incentive Schemes — 1. Pre-IPO Share Scheme" in Appendix IV to the Prospectus.

## Post-IPO Share Scheme

On August 21, 2023, the Post-IPO Share Scheme was conditionally approved and adopted pursuant to written resolutions passed by the Shareholders. The purpose of the Post-IPO Share Scheme is to provide the Company with a flexible means of attracting, remunerating, incentivising, retaining, rewarding, compensating and/or providing benefits to Post-IPO Eligible Participants (as defined below); (ii) to align the interests of Post-IPO Eligible Participants with those of the Company and Shareholders by providing such Post-IPO Eligible Participants with the opportunity to acquire proprietary interests in the Company and become Shareholders; and (iii) to encourage Post-IPO Eligible Participants to contribute to the long-term growth, performance and profits of the Company and to enhance the value of the Company and its Shares for the benefit of the Company and Shareholders as a whole.

Subject to the rules of the Post-IPO Share Scheme, the Board or scheme administrator may, from time to time, in their absolute discretion select any Post-IPO Eligible Participant to be a grantee and, subject to the rules of the Post-IPO Share Scheme, grant an award under the Post-IPO Share Scheme (the "**Post-IPO Award**", and the term "**Post-IPO Award**" shall be construed accordingly), the nature and amount of which shall be determined by the Board or scheme administrator, to such grantee during a period of 10 years commencing at the time immediately prior to the Shares commencing trading on the Stock Exchange (the "**Post-IPO Scheme Adoption Date**") and ending on the 10th anniversary of the Post-IPO Scheme Adoption Date.

A Post-IPO Award may be in the form of: (i) an award which vests in the form of the right to subscribe for and/or to be issued such number of Post-IPO Award Shares as the scheme administrator may determine at the Post-IPO Scheme Issue Price (as defined below) in accordance with the terms of the Post-IPO Share Scheme (a "**Post-IPO Share Award**"); or (ii) an award which vests in the form of the right to subscribe for such number of Post-IPO Award Shares as the scheme administrator may determine during the exercise period at the Post-IPO Scheme Exercise Price in accordance with the terms of the Post-IPO Share Scheme (a "**Post-IPO Share Option**"). The Post-IPO Award Shares shall be identical to all existing issued Shares and (in respect of new Shares) shall be allotted and issued subject to all the provisions of the Articles of Association for the time being in force and will rank pari passu with the other fully paid Shares in issue.

Eligible participants of the Post-IPO Share Scheme include (i) an employee (whether full-time or part-time or other employment relationship), director or officer of any member of the Group on the grant date ("**Post-IPO Employee Participant**", and the term "**Post-IPO Employee Participants**" shall be construed accordingly); (ii) an employee (whether full-time or part-time or other employment relationship), director or officer of: (a) a holding company of the Company; (b) subsidiaries of such holding company other than members of the Group; or (c) any company that is an associate of the Company ("**Post-IPO Related Entity Participant**"); or (iii) any person(s) providing services to the Group on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of the long term growth of the Group as determined by the scheme administrator pursuant to the criteria set out in section headed "D. Share Incentive Schemes — 2. Post-IPO Share Scheme — (b) Eligible Participants" in Appendix IV of the Prospectus, subject to compliance with any applicable laws, rules and regulations ("**Post-IPO Service Provider Participant**", and the term "**Post-IPO Service Provider Participants**" shall be construed accordingly). For the purpose of this annual report, the term "**Post-IPO Eligible Participant**" shall mean a Post-IPO Employee Participant, Post-IPO Related Entity Participant or Post-IPO Service Provider Participant, and the term "**Post-IPO Eligible Participants**" shall be construed accordingly.

The initial total number of new Shares which may be issued pursuant to all Post-IPO Awards to be granted under the Post-IPO Share Scheme and Post-IPO Awards to be granted under any other share schemes of the Company shall not in aggregate exceed 42,666,700 Shares, being 10% of the Shares in issue on the date the Shares commence trading on the Stock Exchange (the "**Post-IPO Scheme Mandate Limit**"), which represents 10% of the total number of Shares in issue as of the date of this annual report. As of December 31, 2023, the total number of Shares which remains available for issue pursuant to all Post-IPO Awards to be granted under the Post-IPO Share Scheme is 42,666,700 Shares, representing 10% of the total number of Shares in issue as of the date of this annual report. Within the Post-IPO Scheme Mandate Limit, the initial total number of new Shares which may be issued pursuant to Post-IPO Awards to be granted to Post-IPO Service Provider Participants under the Post-IPO Share Scheme shall not in aggregate exceed 4,266,670 Shares, being 1% of the Shares in issue on the date the Shares commence trading on the Stock Exchange (the "**Post-IPO Service Provider Sublimit**"), which represents 1% of the total number of Shares in issue as of the date of this annual report. Each of the Post-IPO Scheme Limit and the Post-IPO Service Provider Sublimit may be adjusted or refreshed from time to time in accordance with the rules of the Post-IPO Share Scheme, subject to compliance with any applicable laws, rules and regulations. Shares which may be issued pursuant to Post-IPO Awards which have lapsed in accordance with the terms of the rules of the Post-IPO Share Scheme (or the terms of any other share schemes of the Company) shall not be counted for the purpose of calculating the Post-IPO Scheme Mandate Limit and/or the Post-IPO Service Provider Sublimit.

Unless approved separately by the Shareholders in general meeting, the total number of Post-IPO Award Shares issued and to be issued upon exercise of Post-IPO Awards granted and to be granted under the Post-IPO Share Scheme and any other share scheme(s) of the Company to each Post-IPO Eligible Participant (including both exercised and outstanding Post-IPO Share Options) in any 12-month period up to and including the date of such grant shall not exceed 1% of the total number of Shares in issue.

Grants of Post-IPO Awards to any Director, chief executive or substantial shareholder of the Company, or any of their respective associates, shall be subject to the following additional rules:

(i) such grant shall be subject to the prior approval of the remuneration committee of the Board (excluding any member who is a proposed recipient of the grant of the Post-IPO Award) and the independent non-executive Directors (excluding any independent non-executive Director who is a proposed recipient of the grant of the Post-IPO Awards); and

(ii) (a) where any grant of Post-IPO Share Awards (i.e., excluding grant of Post-IPO Share Options) to any Director (other than an independent non-executive Director) or chief executive of the Company or any of their respective associates would result in the Shares issued and to be issued in respect of all awards granted (excluding any Post-IPO Awards lapsed in accordance with the terms of the Post-IPO Share Scheme) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue at the date of such grant; or

(b) where any grant of Post-IPO Awards to an independent non-executive Director or substantial shareholder of the Company (or any of their respective associates) would result in the number of Shares issued and to be issued in respect of all awards granted (excluding any Post-IPO Awards lapsed in accordance with the terms of the Post-IPO Share Scheme) to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of Shares in issue, such further grant of Post-IPO Awards must be approved by the Shareholders in general meeting in the manner required, and subject to the requirements set out, in the Listing Rules.

The Post-IPO Share Scheme shall be valid and effective for the period of 10 years commencing on the Post-IPO Scheme Adoption Date and ending on the tenth anniversary of the Post-IPO Scheme Adoption Date (the "**Post-IPO Scheme Period**"). As of the date of this annual report, the remaining life of the Post-IPO Share Scheme is approximately 9 years and 4 months. Termination of the Post-IPO Share Scheme shall take effect on the earlier of: (i) the expiry of the Post-IPO Scheme Period; and (ii) such date of early termination as determined by the Board, following which no further Post-IPO Awards will be offered or granted under the Post-IPO Share Scheme, provided that notwithstanding such termination, the Post-IPO Share Scheme and the rules therein shall continue to be valid and effective to the extent necessary to give effect to the vesting and exercise of any Post-IPO Awards granted prior to the termination of the Post-IPO Share Scheme and such termination shall not affect any subsisting rights already granted to any grantee hereunder. Post-IPO Awards that are granted during the effective term of the Post-IPO Share Scheme and remaining unexercised and unexpired immediately prior to the termination of the operation of the Post-IPO Share Scheme shall continue to be valid and exercisable in accordance with their terms of issue after the termination of the Post-IPO Share Scheme.

The scheme administrator may determine in their absolute discretion the amount (if any) payable on application or acceptance of a Post-IPO Award and the period within which any such payments must be made, and such amounts (if any) and periods shall be set out in the award letter issued to the relevant grantee setting out the terms and conditions of the relevant Post-IPO Award (the "**Post-IPO Award Letter**"). Unless otherwise specified in the Post-IPO Award Letter, the grantee shall have 10 business days (i.e., any day on which the Stock Exchange is open for the business of dealing in securities) from the grant date to accept the Post-IPO Award. A grantee may accept a Post-IPO Award by giving written notice of their acceptance to the scheme administrator, together with remittance in favour of the Company of any consideration payable upon grant of the Post-IPO Award.

For Post-IPO Awards which take the form of Post-IPO Share Awards, the price per Share a grantee is required to pay for obtaining the Shares comprising the Post-IPO Share Awards (the "**Post-IPO Scheme Issue Price**") for the exercise of such Post-IPO Share Awards shall be such price determined by the scheme administrator in their absolute discretion and notified to the grantee in the Post-IPO Award Letter. For the avoidance of doubt, the scheme administrator may determine the Post-IPO Scheme Issue Price to be at nil consideration.

For Post-IPO Awards which take the form of Post-IPO Share Options, the price per Share at which a grantee may subscribe for Shares upon the exercise of a Post-IPO Share Option awarded (the "**Post-IPO Scheme Exercise Price**") for such Post-IPO Share Options shall subject to the determination by the scheme administrator in their absolute discretion, provided that the Post-IPO Scheme Exercise Price shall in any event be no less than the higher of: (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the grant date; and (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days (i.e., any day on which the Stock Exchange is open for the business of dealing in securities) immediately preceding the grant date.

The scheme administrator may in respect of each Post-IPO Award and subject to all applicable laws, rules and regulations determine such vesting criteria and conditions or periods for vesting of the Post-IPO Award in its sole and absolute discretion. The relevant vesting date of any Post-IPO Award shall be set out in the Post-IPO Award Letter. The vesting date in respect of any Post-IPO Award shall be not less than 12 months from the grant date, provided that for Post-IPO Employee Participants, the vesting date may be less than 12 months from the grant date (including on the grant date) in certain circumstances as provided under the Post-IPO Share Scheme.

The exercise period for any award of Post-IPO Share Options shall be such period determined by the scheme administrator in their absolute discretion and notified to the Post-IPO Eligible Participant in the Post-IPO Award Letter, provided that the exercise period shall not be longer than 10 years from the grant date. A Post-IPO Share Option shall lapse automatically and shall not be exercisable (to the extent not already exercised) on the expiry of the tenth anniversary from the grant date. For Post-IPO Share Awards, the exercise period shall be such period determined by the scheme administrator in their absolute discretion and notified to the Post-IPO Eligible Participant in the Post-IPO Award Letter. For the avoidance of doubt, the scheme administrator may determine the exercise period of a Post-IPO Share Award to be not applicable and determine that the Post-IPO Award Shares shall fall to be settled upon the vesting date without further action by the grantee. Subject to such terms and conditions as the Board may determine, there is no minimum period for which an option must be held before it can be exercised and no performance target needs to be achieved by the grantee before the options can be exercised.

Since the adoption of the Post-IPO Share Scheme and up to the Latest Practicable Date, no Post-IPO Awards had been granted. Thus, (i) as of January 1, 2023 and December 31, 2023, no Post-IPO Awards (including options and awards) were outstanding, (ii) no Post-IPO Awards had been exercised, vested, cancelled or lapsed under the Post-IPO Share Scheme during the year ended December 31, 2023.

As of January 1, 2023, the Post-IPO Share Scheme had not been adopted. Thus, the Post-IPO Scheme Mandate Limit and Post-IPO Service Provider Sublimit were nil. As of December 31, 2023, the Post-IPO Scheme Mandate Limit and Post-IPO Service Provider Sublimit were 42,666,700 Shares and 4,266,670 Shares, respectively, representing 10% and 1% of the total issued Shares of the Company as of the date of this annual report.

As no Shares may be issued in respect of options and awards granted under all schemes of the Company (namely the Pre-IPO Share Scheme and the Post-IPO Share Scheme) during the year ended December 31, 2023, the number of Shares that may be issued in respect of options and awards granted under all schemes of the Company during the year ended December 31, 2023 divided by the weighted average number of Shares of the relevant class in issue for the year ended December 31, 2023 is not available.

Further details of the principal terms of the Post-IPO Share Scheme are set out in the section headed "Statutory and General Information — D. Share Incentive Schemes — 2. Post-IPO Share Scheme" in Appendix IV to the Prospectus.

## DIRECTORS

The Directors during the year ended December 31, 2023 and up to the Latest Practicable Date were:

| Name | Position/Title |
|---|---|
| Ni Jie | Executive Director and chairman of the Board |
| Hu Jihong | Executive Director |
| Chen Guosheng | Executive Director |
| David Ross Dingman (alias Mr. David R. Dingman) *(resigned on March 18, 2024)* | Non-executive Director |
| Wu Xiaoya | Independent non-executive Director |
| Peng Haitao | Independent non-executive Director |
| Liu Bobin | Independent non-executive Director |
| Chan Chi Fung Leo *(appointed on June 19, 2023)* | Independent non-executive Director |

The biographical details of the Directors and senior management of the Company as of the Latest Practicable Date are set out in the section headed "Directors and Senior Management" in this annual report.

Pursuant to Article 26.3 of the Articles of Association, the Directors may appoint any person to be a Director, either to fill a vacancy on the Board or as an additional Director. Any Director so appointed shall hold office only until the first annual general meeting of the Company after such Director's appointment and shall then be eligible for re-election at that meeting. Accordingly, Mr. Ni, Ms. Hu, Mr. Chen Guosheng and Mr. Chan Chi Fung Leo shall hold office only until the AGM and, being eligible, will offer themselves for re-election at the forthcoming AGM.

Further, pursuant to Article 26.4 of the Articles of Association, at every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Any Director required to stand for re-election pursuant to Article 26.3 of the Articles of Association shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation. A retiring Director shall retain office until the close of the annual general meeting at which such Director retires and shall be eligible for re-election at such meeting. Accordingly, Mr. Wu Xiaoya, Mr. Peng Haitao and Mr. Liu Bobin will retire from office by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

None of the Directors offering themselves for re-election at the forthcoming AGM has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## Changes in Director's Information

Mr. David Ross Dingman resigned as a non-executive Director with effect from March 18, 2024.

There has been no change in the information of Directors which is required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

## Directors' Service Contracts and Letters of Appointment

Each of the executive Directors has entered into a service contract with the Company on September 24, 2023. Letters of appointment have also been issued by the Company to the non-executive Director and each of the independent non-executive Directors. The service contracts with each of our executive Directors and the letters of appointment with the non-executive Director and independent non-executive Directors are for an initial fixed term of three years commencing from September 24, 2023. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with the Articles of Association and the applicable Listing Rules.

Save as disclosed above, none of the Directors has entered, or has proposed to enter, a service contract with any member of the Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

## Confirmation of Independence of Independent Non-executive Directors

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors (being Mr. Wu Xiaoya, Mr. Peng Haitao, Mr. Liu Bobin, Mr. Chan Chi Fung Leo), and the Company considers such Directors to be independent for the year ended December 31, 2023.

## Directors' and Controlling Shareholders' Interests in Transactions, Arrangements or Contracts of Significance

There was no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director and/or any entity connected with a Director had a material interest, whether directly or indirectly, and there was no transaction, arrangement or contract of significance (including contract of significance for the provision of services) between the Company or any of its subsidiaries and the Company's controlling Shareholders or any of its subsidiaries, subsisted at the end of, or at any time during the year ended December 31, 2023.

## Management Contracts

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

## Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As of December 31, 2023, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register of the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

| Name of Director | Capacity/nature of interest | Number of Shares/ underlying Shares[7] | Approximate percentage of shareholding in the total issued share capital[8] |
|---|---|---|---|
| Mr. Ni[1] [3] [4] | Interest in controlled corporation | 146,464,000 (L) | 34.33% |
| | Interest of spouse | 131,200,000 (L) | 30.75% |
| Ms. Hu[2] [3] [4] | Interest in controlled corporation | 146,464,000 (L) | 34.33% |
| | Interest of spouse | 131,200,000 (L) | 30.75% |
| Mr. David Ross Dingman[5] | Interest in controlled corporation | 25,600,000 (L) | 6.00% |
| Mr. Chen Guosheng[6] | Beneficial owner | 1,726,600 (L) | 0.40% |

Notes:

(1) Drago Investments is wholly-owned by Mr. Ni. By virtue of the SFO, Mr. Ni is deemed to be interested in the 131,200,000 Shares held by Drago Investments.

(2) Apex Marine is wholly-owned by Ms. Hu. By virtue of the SFO, Ms. Hu is deemed to be interested in the 131,200,000 Shares held by Apex Marine.

(3) Best Expand is owned as to 50% by Mr. Ni and 50% by Ms. Hu. By virtue of the SFO, each of Mr. Ni and Ms. Hu is deemed to be interested in the 15,264,000 Shares held by Best Expand.

(4) Mr. Ni and Ms. Hu are spouses. By virtue of the SFO, each of them is deemed to be interested in the Shares in which the other is deemed to be interested.

(5) Shipston Electric Vehicle Limited ("**Shipston**") is an investment vehicle ultimately wholly-owned by Mr. David Ross Dingman, the then non-executive Director who resigned on March 18, 2024. Accordingly, Mr. David Ross Dingman is deemed to be interested in the total number of Shares held by Shipston.

(6) Mr. Chen Guosheng was granted an option to acquire for 1,726,600 Shares under the Pre-IPO Share Scheme.

(7) The letter "L" denotes a person's long position in such Shares.

(8) The percentage of shareholding is calculated based on the total number of 426,667,000 Shares in issue as of December 31, 2023.

Save as disclosed above, as of December 31, 2023, none of the Directors and chief executive of the Company had any interests and short positions of in the Shares, underlying Shares and debentures of the Company and 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 and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As of December 31, 2023, so far as the Directors are aware, the following persons had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

| Name of Shareholder | Capacity/nature of interest | Number of Shares[6] | Approximate percentage of shareholding in the total issued share capital[7] |
|---|---|---|---|
| Mr. Ni[1] [3] [4] | Interest in controlled corporation | 146,464,000 (L) | 34.33% |
| | Interest of spouse | 131,200,000 (L) | 30.75% |
| Ms. Hu[1] [2] [4] | Interest in controlled corporation | 146,464,000 (L) | 34.33% |
| | Interest of spouse | 131,200,000 (L) | 30.75% |
| Apex Marine[2] | Beneficial owner | 131,200,000 (L) | 30.75% |
| Drago Investments[3] | Beneficial owner | 131,200,000 (L) | 30.75% |
| Shipston[5] | Beneficial owner | 25,600,000 (L) | 6.00% |
| Shipston EVL Holdings Limited[5] | Interest in controlled corporation | 25,600,000 (L) | 6.00% |
| Shipston Group Limited[5] | Interest in controlled corporation | 25,600,000 (L) | 6.00% |
| Stonor Group Limited[5] | Interest in controlled corporation | 25,600,000 (L) | 6.00% |
| Mr. David R. Dingman[5] | Interest in controlled corporation | 25,600,000 (L) | 6.00% |

Notes:

1. Mr. Ni and Ms. Hu are spouses. By virtue of the SFO, each of them is deemed to be interested in the Shares in which the other is deemed to be interested.

2. Apex Marine is wholly-owned by Ms. Hu. By virtue of the SFO, Ms. Hu is deemed to be interested in the 131,200,000 Shares held by Apex Marine.

3. Drago Investments is wholly-owned by Mr. Ni. By virtue of the SFO, Mr. Ni is deemed to be interested in the 131,200,000 Shares held by Drago Investments.

4. Best Expand is owned as to 50% by Mr. Ni and 50% by Ms. Hu. By virtue of the SFO, each of Mr. Ni and Ms. Hu is deemed to be interested in the 15,264,000 Shares held by Best Expand.

5. Shipston is an investment vehicle wholly-owned by Shipston EVL Holdings Limited. Shipston EVL Holdings Limited is wholly-owned by Shipston Group Limited. Shipston Group Limited is wholly-owned by Stonor Group Limited, which is wholly-owned by Mr. David Ross Dingman, the then non-executive Director who resigned on March 18, 2024. Accordingly, each of Shipston EVL Holdings Limited, Shipston Group Limited, Stonor Group Limited and Mr. David Ross Dingman is deemed to be interested in the total number of Shares held by Shipston.

6. The letter "L" denotes a person's long position in such Shares.

7. The percentage of shareholding is calculated based on the total number of 426,667,000 Shares in issue as of December 31, 2023.

Save as disclosed above, as of December 31, 2023, so far as the Directors are aware, no person had any interests and short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association, although there are no restrictions against such rights under the laws in the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

## TAX RELIEF AND EXEMPTION

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

## EMOLUMENT POLICY

The Group recognizes its employees are prominent assets for its long-term development and it places great emphasis on attracting and recruiting qualified employees. The Group adopts a fair treatment for its employees to ensure that they enjoy fair opportunities and conditions. For emolument policy, the Group provides its employees with remuneration packages covering matters including wages, employee benefits, safety and sanitary conditions in the workplace. The Group also enters into standard confidentiality agreements with all of its employees. As required by PRC Law, the Group participated in various social security plans for its employees including housing provident fund, pension insurance, medical insurance, work-related injury insurance, maternity insurance, and unemployment insurance. Additionally, the Company also operated share incentive schemes to incentivise and motivate its employees in the long term, including the Pre-IPO Share Scheme and the Post-IPO Share Scheme under which qualified employees are granted with share awards or share options, details of which are set out under the section headed "Share Incentive Schemes" in this director's report.

A remuneration committee has also been established by the Group to review the policy and structure of the remuneration for the Directors and senior management and make recommendations on the remuneration packages of individual Directors and senior management. In general, the emolument payable to the Directors is determined based on each Director's time commitment and responsibilities, salaries paid by comparable companies as well as the employment conditions elsewhere in the Group.

## EMPLOYEE BENEFITS

Particulars of the employee benefits of the Group are set out in note 2.17 and note 9 to the consolidated financial statements.

Pursuant to code provision E.1.5 of the CG Code, the annual remuneration of the senior management by band for the year ended December 31, 2023 is set out below:

| Remuneration band | Number of senior management |
|---|---|
| Nil to HKD1,000,000 | 0 |
| HKD1,000,001 to HKD1,500,000 | 2 |
| HKD1,500,001 to HKD2,000,000 | 1 |
| HKD2,000,001 to HKD2,500,000 | 1 |
| HKD2,500,001 to HKD3,000,000 | 1 |
| HKD3,000,001 to HKD3,500,000 | 1 |

## PUBLIC FLOAT

As at the Latest Practicable Date and based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained minimum public float of 25% as required under the Listing Rules.

## RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES AND EQUITY-LINKED AGREEMENTS

Save as disclosed under the sections headed "Share Incentive Schemes" in this directors' report, at no time during the year ended December 31, 2023 was the Company, or any of its subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, nor did the Company enter into any equity-linked agreement.

## DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

None of the Directors and the controlling Shareholders was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group for the year ended December 31, 2023 which would require disclosure under Rule 8.10 of the Listing Rules.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, the Directors and officers of the Company shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses, whatsoever which they or any of them may incur as a result of any act or failure to act in carrying out their functions other than such liability (if any) that they may incur by reason of their own actual fraud or wilful default. Such provisions were in force throughout the year ended December 31, 2023 and are currently in force.

The Company has arranged for appropriate insurance cover for Directors' liabilities in respect of legal actions that may be brought against the Directors during the year ended December 31, 2023.

## CAPITALIZATION ISSUE AND USE OF PROCEEDS FROM THE GLOBAL OFFERING

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date. Under the Capitalization Issue, a total of 288,000,000 Shares credited as fully paid at par to the holders of Shares on the register of members of the Company on August 21, 2023 in proportion to their respective shareholdings were issued and allotted by way of capitalization of the sum of US$28,800 standing to the credit of the share premium account of the Company. A total of 106,667,000 ordinary Shares comprising the Global Offering with a par value of US$0.0001 each of the Company were issued at HK$7.37 per Share. The net proceeds raised by the Company from the Global Offering is approximately HK$706.4 million.

Details of the Group's use of proceeds from the Global Offering are set out in the section headed "Management Discussion and Analysis — Use of Proceeds" in this annual report.

## CONNECTED TRANSACTIONS

There was no connected transaction or continuing connected transaction undertaken by the Company during the year ended December 31, 2023 and up to the date of this annual report which was required to be disclosed pursuant to Chapter 14A of the Listing Rules. The related-party transactions disclosed in note 38 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

## ANNUAL GENERAL MEETING

The AGM will be held on June 26, 2024. A notice convening the AGM and all other relevant documents will be published to the Shareholders in the manner required by the Listing Rules in due course.

## CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of the Shareholders to attend and vote at the AGM, the Company's register of members will be closed from June 21, 2024 to June 26, 2024, both dates inclusive, during which period no transfer of share will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on June 20, 2024.

## CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report from pages 33 to 56 of this annual report.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and policies adopted by the Group and discussed the Group's risk management, internal controls and financial reporting matters with the management. The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended December 31, 2023.

## AUDITOR

The financial statements for the year ended December 31, 2023 have been audited by PricewaterhouseCoopers, who shall retire at the forthcoming AGM and, being eligible, will offer themselves for re-appointment. A resolution will be proposed at the forthcoming AGM to re-appoint PricewaterhouseCoopers, as the auditor of the Company.

Save as otherwise stated, all references above to other sections, reports or notes in this annual report form part of this directors' report.

On behalf of the Board
**Mr. Ni Jie**
*Chairman and Executive Director*

March 28, 2024

# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

**To the Shareholders of Luyuan Group Holding (Cayman) Limited**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of Luyuan Group Holding (Cayman) Limited (the "**Company**") and its subsidiaries (the "**Group**"), which are set out from pages 145 to 240, comprise:

- the consolidated balance sheet as at December 31, 2023;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("**the Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

## KEY AUDIT MATTERS

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

The key audit matter identified in our audit is related to revenue recognition from sales of goods.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| Recognition of revenue from sales of goods | |
| Refer to Note 2.18 and Note 5 to the consolidated financial statements.<br><br>The Group recognized revenue of RMB5,018 million from the sales of goods to its customers, mainly distributors, during the year ended December 31, 2023. Revenue is recognized when the products are accepted by the customers. Significant effort was spent on auditing the revenue recognized by the Group because of the large number of the distributors and volume of transactions, as well as the large volume of considerations made to the distributors in the form of rebates, loyalty points or reimbursement of decoration costs (the "considerations made to distributors") under customer contracts with distributors, which are recorded as a reduction of revenue. Therefore, our audit focused on revenue recognition and considered it as a key audit matter. | Our procedures in relation to revenue from sales of goods recognized included:<br><br>• Understanding and evaluating the internal controls and testing key internal controls over revenue recognition including the considerations made to distributors;<br><br>• Evaluating the appropriateness of accounting policies of revenue recognition by examining the key terms of customer contracts on a sample basis;<br><br>• Testing revenue transactions on a sample basis to the supporting documents, including the invoices, underlying goods receipt notes and customer contracts;<br><br>• Confirming the revenue for the year ended December 31, 2023 and trade receivables as of December 31, 2023 with customers on a sample basis;<br><br>• Performing cut-off test on revenue transactions, by examining the goods receipt notes signed by customers before and after year end date and checking whether the revenue transactions were recognized in appropriate period;<br><br>• Checking the formula and basis used to calculate the considerations made to distributors by comparing the key terms of customers' contracts on a sample basis;<br><br>• Examining the data used in calculation of the considerations made to distributors on a sample basis to the supporting documents;<br><br>Based on the procedures performed, we found the revenue recognized to be supportable by the available evidence. |

## OTHER INFORMATION

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

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

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

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

## RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mang, Kwong Fung Frederick.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, March 28, 2024

# CONSOLIDATED INCOME STATEMENT

| | Note | Year ended December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **5,082,982** | 4,783,023 |
| Cost of sales | 8 | **(4,401,743)** | (4,221,691) |
| **Gross profit** | | **681,239** | 561,332 |
| Selling and marketing costs | 8 | **(316,228)** | (259,567) |
| Administrative expenses | 8 | **(99,240)** | (89,059) |
| Research and development costs | 8 | **(189,399)** | (150,498) |
| Provision of impairment on financial assets | 3.1.2 | **(908)** | (1,650) |
| Other income | 6 | **62,720** | 37,750 |
| Other expense | 6 | **(6,522)** | (6,093) |
| Other gains — net | 7 | **8,728** | 33,567 |
| **Operating profit** | | **140,390** | 125,782 |
| Finance income | 10 | **32,661** | 21,038 |
| Finance costs | 10 | **(21,984)** | (24,773) |
| **Finance income/(costs) — net** | 10 | **10,677** | (3,735) |
| Share of results of an associate | 18 | **73** | 201 |
| **Profit before income tax** | | **151,140** | 122,248 |
| Income tax expenses | 12 | **(5,533)** | (4,218) |
| **Profit for the year** | | **145,607** | 118,030 |
| **Attributable to the equity holders of the Company** | | **145,607** | 118,030 |
| Earnings per share for profit attributable to equity holders of the Company | | | |
| — Basic (RMB per share) | 13 | **0.43** | 0.37 |
| — Diluted (RMB per share) | 13 | **0.43** | 0.37 |

The above consolidated income statement should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | Year ended December 31, | |
|---|---|---|---|
| | Note | **2023 RMB'000** | 2022 RMB'000 |
| **Profit for the year** | | **145,607** | 118,030 |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of foreign operations | 21 | **3,862** | 209 |
| Changes in the fair value of debt instruments at fair value through other comprehensive income, net of tax | 21 | **859** | 731 |
| *Items that will not be reclassified to profit or loss:* | | | |
| Exchange differences on translation of the Company | 21 | **(9,306)** | 764 |
| **Total comprehensive income for the year** | | **141,022** | 119,734 |
| **Attributable to the equity holders of the Company** | | **141,022** | 119,734 |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# CONSOLIDATED BALANCE SHEET

| | Note | As at December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **958,641** | 844,125 |
| Right-of-use assets | 15 | **96,492** | 95,722 |
| Intangible assets | 16 | **1,068** | 1,711 |
| Investments in associates | 18 | **1,517** | 1,444 |
| Deferred income tax assets | 25 | **11,836** | 17,029 |
| Other receivables and prepayments | 24 | **127,698** | 116,028 |
| Time deposits | 26 | **30,000** | — |
| Trade and lease receivables | 23 | **4,543** | 9,976 |
| | | **1,231,795** | 1,086,035 |
| **Current assets** | | | |
| Inventories | 22 | **254,028** | 445,672 |
| Trade and notes and lease receivables | 23 | **218,955** | 294,809 |
| Other receivables and prepayments | 24 | **202,992** | 132,632 |
| Financial assets at fair value through profit or loss | 19 | **545,326** | 533,565 |
| Debt instruments at fair value through other comprehensive income | 20 | **31,637** | 95,229 |
| Time deposits | 26 | **213,800** | 119,200 |
| Restricted cash | 27 | **168,980** | 81,820 |
| Cash and cash equivalents | 27 | **994,968** | 395,038 |
| | | **2,630,686** | 2,097,965 |
| **Total assets** | | **3,862,481** | 3,184,000 |
| **Net current assets/(liabilities)** | | **801,603** | (17,173) |
| **OWNERS' EQUITY** | | | |
| Share capital | 33 | **305** | 22 |
| Share premium | 33 | **688,457** | — |
| Other reserves | 21 | **279,805** | 247,217 |
| Retained earnings | | **558,998** | 432,599 |
| **Capital and reserve attributable to equity holders of the Company** | | **1,527,565** | 679,838 |
| **Total equity** | | **1,527,565** | 679,838 |

## CONSOLIDATED BALANCE SHEET

| | | As at December 31, | |
|---|---|---|---|
| | Note | **2023 RMB'000** | 2022 RMB'000 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 32 | **477,319** | 369,724 |
| Provisions | 30 | **3,395** | 2,432 |
| Lease liabilities | 15 | **4,061** | 2,310 |
| Deferred income | 31 | **21,058** | 14,558 |
| | | **505,833** | 389,024 |
| **Current liabilities** | | | |
| Trade and notes and other payables | 28 | **1,552,893** | 1,704,646 |
| Contract liabilities | 29 | **82,710** | 96,384 |
| Borrowings | 32 | **166,027** | 286,862 |
| Provisions | 30 | **6,560** | 4,576 |
| Lease liabilities | 15 | **3,308** | 2,798 |
| Income tax liabilities | | **17,585** | 19,872 |
| | | **1,829,083** | 2,115,138 |
| **Total liabilities** | | **2,334,916** | 2,504,162 |
| **Total equity and liabilities** | | **3,862,481** | 3,184,000 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements from pages 145 to 240 were approved for issue by the Board of directors on March 28, 2024 and were signed on its behalf by:

| | |
|---|---|
| **Ms. Hu Jihong** | **Mr. Chen Guosheng** |
| *Director* | *Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | | Attributable to equity holders of the Company | | | |
|---|---|---|---|---|---|
| | Note | Share capital RMB'000 (Note 33) | Other reserves RMB'000 (Note 21) | Retained earnings RMB'000 | Total equity RMB'000 |
| **Balance at January 1, 2022** | | 22 | 241,883 | 318,199 | 560,104 |
| **Comprehensive income** | | | | | |
| Profit for the year | | — | — | 118,030 | 118,030 |
| Currency translation differences | | — | 973 | — | 973 |
| Changes in the fair value of debt instruments at fair value through other comprehensive income, net of tax | | — | 731 | — | 731 |
| **Total comprehensive income for the year** | | — | 1,704 | 118,030 | 119,734 |
| **Transactions with owners in their capacity** | | | | | |
| Appropriations to statutory reserve | | — | 3,630 | (3,630) | — |
| **Total transactions with owners in their capacity for the year** | | — | 3,630 | (3,630) | — |
| **Balance at December 31, 2022** | | 22 | 247,217 | 432,599 | 679,838 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Note | Attributable to equity holders of the Company | | | | |
|---|---|---|---|---|---|---|
| | | Share capital RMB'000 (Note 33) | Share premium RMB'000 (Note 33) | Other reserves RMB'000 (Note 21) | Retained earnings RMB'000 | Total equity RMB'000 |
| **Balance at January 1, 2023** | | 22 | — | 247,217 | 432,599 | 679,838 |
| **Comprehensive income** | | | | | | |
| Profit for the year | | — | — | — | 145,607 | 145,607 |
| Currency translation differences | | — | — | (5,444) | — | (5,444) |
| Changes in the fair value of debt instruments at fair value through other comprehensive income, net of tax | | — | — | 859 | — | 859 |
| **Total comprehensive income for the year** | | — | — | (4,585) | 145,607 | 141,022 |
| **Transactions with owners in their capacity** | | | | | | |
| Appropriations to statutory reserve | | — | — | 19,208 | (19,208) | — |
| Issuance of shares from the initial public offering | | 76 | 721,140 | — | — | 721,216 |
| Capitalization issue | | 207 | (207) | — | — | — |
| Listing expenses | | — | (32,476) | — | — | (32,476) |
| Share-based payments | 34 | — | — | 17,965 | — | 17,965 |
| **Total transactions with owners in their capacity for the year** | | 283 | 688,457 | 37,173 | (19,208) | 706,705 |
| **Balance at December 31, 2023** | | 305 | 688,457 | 279,805 | 558,998 | 1,527,565 |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | | Year ended December 31, | |
|---|---|---|---|
| | | 2023 | 2022 |
| | Note | RMB'000 | RMB'000 |
| **Operating activities** | | | |
| Net cash generated from operations | 35(a) | **230,683** | 491,124 |
| Interest received on bank deposits | | **32,661** | 21,038 |
| Income tax paid | | **(2,718)** | (2,270) |
| **Net cash generated from operating activities** | | **260,626** | 509,892 |
| **Investing activities** | | | |
| Interest received on loans to third parties, related parties and time deposits | | **2,351** | 4,625 |
| Purchase of property, plant and equipment and intangible assets | | **(203,304)** | (224,328) |
| Purchase of land use rights | | **—** | (9,391) |
| Payments for financial assets at fair value through profit or loss | | **(327,968)** | (285,954) |
| Proceeds from financial assets at fair value through profit or loss | | **331,792** | 198,357 |
| Payments for time deposits | | **(617,840)** | (224,340) |
| Proceeds from time deposits | | **493,240** | 147,140 |
| Proceeds from government grants related to assets | | **8,399** | 8,000 |
| Repayment of loans by third parties | | **2,290** | 34,866 |
| Repayment of loans by a related party | 38(b) | **—** | 47,500 |
| Proceeds from disposal of property, plant and equipment | | **263** | 3,562 |
| Proceeds from disposal of associates | | **—** | 5,840 |
| Proceeds from disposal of a subsidiary | | **—** | 27 |
| **Net cash used in investing activities** | | **(310,777)** | (294,096) |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Interest paid | 35 | **(21,539)** | (24,633) |
| Proceeds from borrowings | 35 | **1,200,446** | 913,363 |
| Repayment of loan from a related party | | **—** | (3,271) |
| Repayments of borrowings | 35 | **(1,213,876)** | (922,888) |
| Principal and interest of lease payments | 35 | **(3,561)** | (2,935) |
| Payments for listing expenses | | **(6,336)** | (4,500) |
| Proceeds from issuing ordinary shares | | **699,576** | — |
| **Net cash generated from/(used in) financing activities** | | **654,710** | (44,864) |
| **Net increase in cash and cash equivalents** | | **604,559** | 170,932 |
| Cash and cash equivalents at beginning of the year | | **395,038** | 222,012 |
| Effect of foreign exchange rate changes, net | | **(4,629)** | 2,094 |
| **Cash and cash equivalents at end of the year** | 27 | **994,968** | 395,038 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

Luyuan Group Holding (Cayman) Limited (the "**Company**") was incorporated in Cayman Islands on February 18, 2009 as an exempted company. The address of its registered office is P.O. Box 309, Ugland House Grand Cayman, KY1-1104 Cayman Islands.

The Company, an investment holding company, and its subsidiaries (together with the Company, referred to as "**the Group**") are principally engaged in electric vehicle business (the "**Listing Business**") in the People's Republic of China (the "**PRC**").

The ultimate holding companies of the Company are Apex Marine Investments Limited, Drago Investments Limited, and Best Expand Holdings Limited ("**Best Expand**"), which are incorporated in the British Virgin Islands, and the ultimate controlling shareholders of the Company are Mr. Ni Jie and Ms. Hu Jihong (the "**Controlling Shareholders**").

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on October 12, 2023 (the "**Listing Date**").

## 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

This note provides a list of the material accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Luyuan Group Holding (Cayman) Limited and its subsidiaries.

### 2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and debt instruments at fair value through other comprehensive income, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

## 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

**New and amended standards of HKFRSs effective from January 1, 2023**

A number of new or amended standards became applicable for the current reporting period. The adoption of these new standards and amendments did not have material impact on the Group's financial position or operating result and did not require retrospective adjustment.

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| Amendments to HKAS 8 | Definition of Accounting Estimates | January 1, 2023 |
| Amendments to HKAS1 and HKAS Practice Statement 2 | Disclosure of Accounting Policies | January 1, 2023 |
| HKFRS 17 | Insurance Contracts | January 1, 2023 |
| Amendments to HKAS 12 | Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction | January 1, 2023 |
| Amendments to HKAS 12 | International Tax Reform — Pillar Two Model Rules | January 1, 2023 |

**New standards, amendments and interpretation of HKFRSs, not yet adopted**

Certain new accounting standards, amendments and interpretation have been published that are not mandatory for the year ended December 31, 2023 and have not been early adopted by the Group. These standards, amendments and interpretation are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current | January 1, 2024 |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants | January 1, 2024 |
| Amendments to HKAS 16 | Lease Liability in a Sale and Leaseback | January 1, 2024 |
| Amendments to HKAS 7 and HKFRS 7 | Supplier Finance Arrangements | January 1, 2024 |
| Amendments to HKAS 21 | Lack of Exchangeability | January 1, 2025 |
| Amendments to HKFRS 10 and HKFRS 28 | Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture | To be determined |
| Hong Kong Interpretations 5 (Revised) | Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause | January 1, 2024 |

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.2 Principles of consolidation and equity accounting

### (a) Subsidiaries

Subsidiaries are all entities (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and consolidated statement of changes in equity respectively.

### (b) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (refer to (c) below), after initially being recognized at cost.

### (c) Equity accounting

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.2 Principles of consolidation and equity accounting (Continued)

### (c) Equity accounting (Continued)

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.9.

## 2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in profit or loss as a bargain purchase.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.3 Business combinations (Continued)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in consolidated income statement.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in consolidated income statement or transferred to another category of equity as specified/permitted by applicable HKFRSs.

## 2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker of the Company assesses the financial performance and position of the Group, and makes strategic decisions. The chief operating decision maker of the Group consists of the executive Directors.

## 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

### 2.6 Foreign currency translation

#### (a) Functional and presentation currency

The functional currency of the Company is Hong Kong Dollar ("**HKD**") which is the currency of the primary environment in which the Company operates. The functional currency of the group entities located in the PRC is Renminbi ("**RMB**") in which most of the transactions are denominated. The consolidated financial statements are presented in RMB, unless otherwise stated.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognized in other comprehensive income.

#### (c) Group companies

The results and financial positions of some group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position of the group entities are translated at the closing rate at the date of that consolidated balance sheet;

- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognized in other comprehensive income.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.6 Foreign currency translation (Continued)

### (c) Group companies (Continued)

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in other comprehensive income (OCI). When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

## 2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to consolidated income statement during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| — Buildings | 20–30 years |
| — Motor vehicles | 4–8 years |
| — Machinery & equipment | 3–12 years |
| — Office equipment | 3–8 years |
| — Decoration | 2–10 years |
| — Leasehold improvement | shorter of useful life or lease term |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated income statement.

Construction-in-progress is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.8 Intangible assets

### (a) Software and patent

Separately acquired software and patent are shown at historical cost. These assets have finite useful lives, and are measured at costs less accumulated amortization. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

| | |
|---|---|
| — Software | 3–10 years |

### (b) Research and development expenditure

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the patent so that it will be available for use;
- Management intends to complete the patent and use or sell it;
- There is an ability to use or sell the patent;
- It can be demonstrated how the patent will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the patent are available; and
- The expenditure attributable to the patent during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the patent include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

No research and development expenditures were capitalized during the reporting period.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## 2.10 Investments and other financial assets

### 2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

### 2.10.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.10 Investments and other financial assets (Continued)

### 2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

***Debt instruments***

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidation income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the consolidation income statement.

- FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.10 Investments and other financial assets (Continued)

### 2.10.3 Measurement (Continued)

***Equity instruments***

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognized in other gains/(losses) in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

### 2.10.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9 Financial Instruments ("**HKFRS 9**"), which requires expected lifetime losses to be recognized from initial recognition of the receivables, refer to Note 3.1.2 for further details.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit loss. Refer to Note 3.1.2 for further details.

## 2.11 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realizable 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.

## 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

### 2.12 Trade and notes receivables and other receivables

Trade and notes receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Credit period is only provided to some customers that have good credit history. They are generally due for settlement within 180 days and therefore all classified as current. Trade and notes receivables are recognized initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognized at fair value.

Other receivables are amounts generally arise from transactions outside the usual operating activities of the Group.

The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Refer to note 3.1 for a description of the Group's impairment policies. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

The Group holds the notes receivables for both collection of contractual cash flows and selling purpose. If selling of the notes receivables meets the definition of derecognition of financial assets, notes receivables are measured at FVOCI. Otherwise, notes receivables are measured at amortized cost using the effective interest method.

### 2.13 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.14 Share capital

Ordinary shares are classified as equity (Note 33). Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.15 Trade and notes payables and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 180 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.16 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

### (b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.17 Employee benefit

### 2.17.1 Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognized in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

### 2.17.2 Post-employment obligations

The Group operates post-employment schemes via defined contribution pension plans. The Group pays contributions to publicly administered pension insurance plans on a mandatory or voluntary basis in the PRC. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

### 2.17.3 Housing funds, medical insurances and other social insurances

Employees of the Group in the PRC are entitled to participate in various government-supervised housing funds, medical insurances and other social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group's liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

## 2.18 Revenue recognition

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services is transferred to the customer.

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

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

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

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.18 Revenue recognition (Continued)

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

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

The Group identified several performance obligations which are to sell products to the Group's distributors or directly to customers, to provide services to distributors.

All contracts are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

### Sales of products

The Group generates revenue from sales of electric bicycles, electric scooters, batteries and charges and electric two-wheeled vehicle parts through domestic and overseas distributors, corporate and institutional customers, third party e-commerce platforms or self-operated online stores. The sales of products are recognized at a point in time, usually upon the acceptance by the customers.

When the Group sells its products through third-party e-commerce platforms, corporate and institutional customers, domestic and overseas distributors, they are the customers of the Group as they obtain control of the products before selling to end customers. Domestic and overseas distributors are generally required to pay advance before the acceptance of the products. A contract liability is recognized for the advance payment. Revenue from sales of products is recognized at a point in time when control of the products is transferred, usually upon the acceptance at the Group's warehouse by domestic distributors or the named place by third-party e-commerce platforms and corporate and institutional customers. Revenue from sales of products through overseas distributors is recognized when the products pass the ship's rail at the named port of shipment with FOB term.

When the Group sells its products to individual customers through its self-operated online stores, either established by the Group or established on third-party e-commerce platforms, revenue is recognized at a point in time when the products are accepted by the individual customers. Commission paid to third-party commerce platforms, which are considered as incremental costs of obtaining a contract, are expenses as incurred because the amortization period of the asset is less than one year.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.18 Revenue recognition (Continued)

### Sales of products (Continued)

The Group provides sales volume rebate to domestic distributors. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume rebate. Accumulated experience is used to estimate the provision for the volume rebates, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. The Group also provides reimbursement for store decoration to domestic distributors, which are in substance payment to customer. The reimbursement without committed sales volume is directly deducted from revenue, and the reimbursement with committed sales volume is capitalized as prepayment to domestic distributors and subsequently deducted from revenue which is consistent with the method to recognize revenue from sales of products.

Sales returns are estimated based on historical experiences, which were insignificant for the years ended December 31, 2022 and 2023.

### Provision of services

The Group generates revenue from training service and other services. Revenue from training service and other services are recognized when the services are rendered, which is based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

### Loyalty program

The Group operates a loyalty program where domestic distributors accumulate points for purchases made which entitle them to discounts on future purchases from the Group. A contract liability for the award points is recognized at the time of sale. Revenue is recognized when the points are redeemed.

### Sales of goods to customer under a finance lease as a manufacturer lessor

The Group sells goods to certain customer under a finance lease as a manufacturer lessor. A manufacturer lessor is a lessor that manufactures the leased assets as part of its dealing activities. A manufacturer lessor that enters into a finance lease with a customer recognizes selling profit or loss in income as follows:

— Revenue is the fair value of the underlying assets or, if lower, the present value of the lease payments accruing to the lessor, discounted using a market rate of interest.

— Cost of sale is the cost, or carrying amount (if different), of the underlying asset, less the present value of the unguaranteed residual value.

— Selling profit or loss is the difference between revenue and the cost of sale, recognized in accordance with an entity's policy for outright sales to which HKFRS 15 applies.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.18 Revenue recognition (Continued)

### Payment to distributors

Consideration payable to a customer should be deducted from revenue unless the payment to a customer is in exchange for a distinct good or service that the customer transfer to the entity. The Group paying for the store decoration fee to decoration companies for distributors is, in substance, a payment on behalf of customer. As the Group does not receive any distinct goods or services from distributors, the payment should be deducted from revenue.

When distributors have committed a minimum sales volume which in turn would request a minimum purchase amount from the Group, the payment is capitalized as "prepayment to distributors" and deducted from revenue on a systematic basis that is consistent with the transfer to the distributors of the goods. When distributors have not committed a minimum sales volume, the payment is deducted from revenue directly.

## 2.19 Interest income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes (Note 10).

Interest income on financial assets at amortized cost calculated using the effective interest method is recognized in profit or loss as part of other income (Note 6).

Interest income from financial assets at FVTPL is included in other gains/(losses) (Note 7). Any other interest income is included in other income (Note 6).

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

## 2.20 Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.20 Leases (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

- amounts expected to be payable by the Group under residual value guarantees

- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and

- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the entity, which does not have recent third party financing, and

- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortizing loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.20 Leases (Continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

## 2.21 Provisions

Provisions for legal claims and quality assurance warranties are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

### 2.22 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

### 2.23 Dividend distribution

Dividends are made for the amount of any dividend declared, being appropriately authorized and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

### 2.24 Earnings per share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares

- by the weighted average number of ordinary shares outstanding during the financial year/period, adjusted for bonus elements in ordinary shares issued during the year/period and excluding treasury shares

#### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

# 2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (CONTINUED)

## 2.25 Share-based payments

The Group operates an equity-settled, share-based compensation plan (the "**Pre-IPO Share Scheme**"), under which the Group receives services from employees as consideration for equity instruments (shares) of the Group. The fair value of the equity-settled share-based payments for the employee services received was measured at the grant date of the equity instruments. It is recognized as an expense and share-based payment reserve respectively. The total amount to be expensed is determined by reference to the fair value of the share options granted:

- excluding any market performance conditions;
- including the impact of any service and non-market performance vesting conditions; and
- excluding the impact of any non-vesting conditions.

Service conditions and non-market vesting conditions are included in assumptions about the number of shares that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The Pre-IPO Share Scheme is administrated by Yuan V Holdings Limited (the "**Trusty Company**", a trust company wholly-owned by a trust in which the Company is the settlor, Futu Trustee Limited acts as trustee and the beneficiaries are grantees of the Pre-IPO Share Option Scheme), which is consolidated by the Group. When the shares are granted but not vested, they are recognized as treasury shares of the Group.

# 3 FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risks), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

### 3.1.1 Market Risk

***Foreign exchange risk***

The Group operates in the PRC with most of the transactions settled in RMB except for certain sales to international market. Foreign currency risk arises when commercial transactions or recognized assets or liabilities are denominated in a currency other than the entities' functional currency. The Group is exposed to foreign currency risk primarily with respect to USD and HKD.

The Group manages its foreign currency risk by performing regular reviews of the Group's net foreign currency exposures and may enter into currency forward contracts, when necessary, to manage its foreign exchange exposure.

| | **Assets As at December 31,** | |
|---|---|---|
| | **2023 RMB'000** | 2022 RMB'000 |
| USD | | |
| — Cash and cash equivalents | **119** | — |
| — Trade receivables | **4,631** | 2,729 |
| HKD | | |
| — Cash and cash equivalents | **387,606** | 288 |

| | **Liabilities As at December 31,** | |
|---|---|---|
| | **2023 RMB'000** | 2022 RMB'000 |
| HKD | | |
| — Trade and other payables | **23** | — |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

### 3.1.1 Market Risk (Continued)

***Foreign exchange risk (Continued)***

| | Impact on profit after tax Year ended December 31, | |
|---|---|---|
| | **2023 Increase/ (decrease) RMB'000** | 2022 Increase/ (decrease) RMB'000 |
| RMB — USD | | |
| Appreciation of RMB by 5% | **(177)** | (108) |
| Depreciation of RMB by 5% | **177** | 108 |
| RMB — HKD | | |
| Appreciation of RMB by 5% | **(14,534)** | (11) |
| Depreciation of RMB by 5% | **14,534** | 11 |

***Interest rate risks***

The Group's income and operating cash flows are substantially independent of changes in market interest rates, as the Group has no significant interest-bearing assets except for cash and cash equivalents (Note 27), time deposits (Note 26) and restricted cash (Note 27) measured at amortized cost.

Bank borrowings obtained at variable rates expose the Group to cash flow interest-rate risk and bank borrowings obtained at fixed rates expose the Group to fair value interest-rate risk. As at December 31, 2022 and 2023, if interest rates on borrowings with floating rates had been 50 basis points higher/lower with all other variables held constant, the post-tax loss/ gain of the Group for the year ended December 31, 2022 and 2023 would have changed as follows:

| | Impact on profit after tax Year ended December 31, | |
|---|---|---|
| | **2023 Decrease/ (increase) RMB'000** | 2022 Decrease/ (increase) RMB'000 |
| 50 basis points higher | **994** | 935 |
| 50 basis points lower | **(994)** | (935) |

As at December 31, 2022 and 2023, the Group's lease liabilities were all carried at fixed rates, which did not expose the Group to cash flow interest rate risk.

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

### 3.1.2 Credit risk and impairment assessment

***Impairment of financial assets***

The Group is exposed to credit risk in relation to its cash, restricted cash, time deposits, trade and notes and lease receivables, other receivables and financial assets measured at FVTPL as well as financial assets measured at FVOCI. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group performed impairment assessment for financial assets and other items under Expected Credit Loss ("**ECL**") model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment, if applicable, is summarized as below:

**Cash, restricted cash and time deposits**

To manage this risk, the Group only makes transactions with state-owned banks, reputable commercial banks in the PRC and reputable international banks outside of the PRC which are all high-credit-quality financial institutions. There has been no recent history of default in relation to these banks. The expected credit loss is closed to zero.

**Trade receivables**

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up actions are taken to recover overdue debts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals.

In addition, the Group performs impairment assessment under ECL model on trade receivables balances on provision matrix, the trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories of recurring customers and ageing of the new customers.

The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. As the credit period is only provided to some customers that have good credit history and the Group evaluates the performance of each customer annually, the Group determines the expected credit losses on these items by using provision matrix, grouped by aging based on revenue recognition date and the value of the pledged asset received from the customers.

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

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

***Impairment of financial assets (Continued)***

**Trade receivables (Continued)**

As part of the Group's credit risk management, the Group uses debtors' past due status to assess the impairment for its customers because these customers are with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

As at December 31, 2022 and 2023, on that basis, the loss allowance was determined as follows for trade receivables:

*(1) Individual basis*

| | Within 1 year RMB'000 | Over 1 year and within 2 years RMB'000 | Over 2 years and within 3 years RMB'000 | Over 3 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| December 31, 2023 | **(4,583)** | **(1,370)** | **(218)** | **(80)** | **(6,251)** |
| December 31, 2022 | — | — | — | (3,925) | (3,925) |

The expected loss rate on the individual basis was 100% during the years ended December 31, 2022 and 2023.

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

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

***Impairment of financial assets (Continued)***

**Trade receivables (Continued)**

*(2) Trade receivables with collateral*

| December 31, 2023 | Within 1 year RMB'000 | Over 1 year and within 2 years RMB'000 | Over 2 years and within 3 years RMB'000 | Over 3 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Expected loss rate | 0.04% | 0.21% | 0.82% | 4.44% | |
| Gross carrying amount | 46,578 | 24,912 | 2,002 | 2,067 | 75,559 |
| Loss allowance provision | (19) | (52) | (17) | (92) | (180) |

| December 31, 2022 | Within 1 year RMB'000 | Over 1 year and within 2 years RMB'000 | Over 2 years and within 3 years RMB'000 | Over 3 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Expected loss rate | 0.12% | 0.73% | 3.30% | – | |
| Gross carrying amount | 69,554 | 2,002 | 2,540 | – | 74,096 |
| Loss allowance provision | (83) | (15) | (84) | – | (182) |

The decrease or increase of expected credit loss rate for trade receivables during the years ended December 31, 2022 and 2023 was mainly due to the increase or decrease of coverage of collateral on trade receivables provided by distributors to the Group.

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

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

***Impairment of financial assets (Continued)***

**Trade receivables (Continued)**

*(3) Trade receivables without collateral*

| December 31, 2023 | Within 1 year RMB'000 | Over 1 year and within 2 years RMB'000 | Over 2 years and within 3 years RMB'000 | Over 3 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Expected loss rate | 5.05% | 68.21% | 95.46% | 100.00% | |
| Gross carrying amount | 108,834 | 3,463 | 24 | 5,434 | 117,755 |
| Loss allowance provision | (5,478) | (2,362) | (22) | (5,434) | (13,296) |

| December 31, 2022 | Within 1 year RMB'000 | Over 1 year and within 2 years RMB'000 | Over 2 years and within 3 years RMB'000 | Over 3 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Expected loss rate | 5.21% | 68.02% | 93.83% | 100.00% | |
| Gross carrying amount | 98,007 | 1,979 | 18 | 11,639 | 111,643 |
| Loss allowance provision | (5,103) | (1,346) | (17) | (11,639) | (18,105) |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

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

***Impairment of financial assets (Continued)***

**Trade receivables (Continued)**

*(3) Trade receivables without collateral (Continued)*

The loss allowances for trade receivables for the years ended December 31, 2022 and 2023 as follows:

| | Year ended December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| At beginning of year | **(22,212)** | (22,162) |
| Provision of impairment | **(7,788)** | (1,277) |
| Receivables written off as uncollectible | **10,273** | 1,227 |
| At end of year | **(19,727)** | (22,212) |

*(4) Lease receivables*

| December 31, 2023 | Within 1 year RMB'000 | Over 1 year and within 2 years RMB'000 | Over 2 years and within 3 years RMB'000 | Over 3 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Expected loss rate | — | 2.69% | — | — | |
| Gross carrying amount | — | 9,701 | — | — | 9,701 |
| Loss allowance provision | — | (261) | — | — | (261) |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

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

***Impairment of financial assets (Continued)***

**Trade receivables (Continued)**

*(4) Lease receivables (Continued)*

| December 31, 2022 | Within 1 year RMB'000 | Over 1 year and within 2 years RMB'000 | Over 2 years and within 3 years RMB'000 | Over 3 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Expected loss rate | 2.56% | — | — | — | |
| Gross carrying amount | 19,417 | — | — | — | 19,417 |
| Loss allowance provision | (498) | — | — | — | (498) |

The loss allowances for lease receivables for the years ended December 31, 2022 and 2023 as follows:

| | Year ended December 31, 2023 RMB'000 | Year ended December 31, 2022 RMB'000 |
|---|---|---|
| At beginning of year | **(498)** | — |
| Reversal/(provision) of impairment | **237** | (498) |
| At end of year | **(261)** | (498) |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

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

***Impairment of financial assets (Continued)***

**Trade receivables (Continued)**

*(5) Non-current trade receivables*

| December 31, 2023 | Within 1 year RMB'000 | Over 1 year and within 2 years RMB'000 | Over 2 years and within 3 years RMB'000 | Over 3 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Expected loss rate | 2.69% | — | — | — | |
| Gross carrying amount | 4,669 | — | — | — | 4,669 |
| Loss allowance provision | (126) | — | — | — | (126) |

The loss allowances for non-current trade receivables for the years ended December 31, 2022 and 2023 as follows:

| | Year ended December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| At beginning of year | — | — |
| Provision of impairment | (126) | — |
| Receivables written off as uncollectible | — | — |
| At end of year | (126) | — |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

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

***Impairment of financial assets (Continued)***

**Trade receivables (Continued)**

*(6) Other receivables*

Other receivables mainly comprise deposits and others. For other receivables, the Directors make periodic individual assessment on the recoverability based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information.

The loss allowance at December 31, 2022 and 2023 are as follows:

| December 31, 2023 | Expected loss rate | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
|---|---|---|---|
| **Stage 1** | | | |
| **Included in current assets** | | | |
| Deposits | 2.68% | 1,320 | (35) |
| Others | 1.62% | 4,014 | (65) |
| **Included in non-current assets** | | | |
| Deposits | 2.68% | 1,512 | (41) |
| | | 6,846 | (141) |
| **Stage 3** | | | |
| **Included in current assets** | | | |
| Receivables from disposal of land use rights | 100.00% | 20,000 | (20,000) |
| Loans to third parties | 100.00% | 3,358 | (3,358) |
| Others | 100.00% | 7,084 | (7,084) |
| | | 30,442 | (30,442) |
| | | 37,288 | (30,583) |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

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

***Impairment of financial assets (Continued)***

**Trade receivables (Continued)**

*(6) Other receivables (Continued)*

| December 31, 2022 | Expected loss rate | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
|---|---|---|---|
| **Stage 1** | | | |
| **Included in current assets** | | | |
| Deposits | 2.71% | 1,360 | (37) |
| Others | 3.02% | 1,313 | (39) |
| **Included in non-current assets** | | | |
| Deposits | 2.71% | 1,496 | (40) |
| | | 4,169 | (116) |
| **Stage 3** | | | |
| **Included in current assets** | | | |
| Loans to a related party (Note 24(c)) | 42.61% | 11,000 | (4,688) |
| Receivables from disposal of land use rights | 100.00% | 20,000 | (20,000) |
| Loans to third parties | 100.00% | 5,648 | (5,648) |
| Others | 100.00% | 7,784 | (7,784) |
| | | 44,432 | (38,120) |
| | | 48,601 | (38,236) |

| | Year ended December 31, 2023 RMB'000 | Year ended December 31, 2022 RMB'000 |
|---|---|---|
| At beginning of year | **(38,236)** | (38,737) |
| Reversal of impairment | **6,337** | 474 |
| Write-off amount | **1,316** | 27 |
| At end of year | **(30,583)** | (38,236) |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

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

***Impairment of financial assets (Continued)***

**Trade receivables (Continued)**

*(7) Notes receivables*

For notes receivables, the Directors make periodic individual assessment on the recoverability based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information.

The loss allowance at December 31, 2022 and 2023 are as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Gross carrying amount | **29,790** | 118,850 |
| Expected loss rate | **0.38%** | 0.37% |
| Loss allowance | **(112)** | (436) |

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| At beginning of year | **(436)** | (69) |
| Reversal/(provision) of impairment | **324** | (367) |
| At end of year | **(112)** | (436) |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

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

***Impairment of financial assets (Continued)***

**Trade receivables (Continued)**

*(8) Debt instruments at fair value through other comprehensive income*

The loss allowance at December 31, 2022 and 2023 as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Fair value before provision of impairment | **31,718** | 95,418 |
| Expected loss rate | **0.25%** | 0.20% |
| Loss allowance | **(81)** | (189) |

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| At beginning of year | **(189)** | (207) |
| Reversal of impairment | **108** | 18 |
| At end of year | **(81)** | (189) |

No other financial assets carry a significant exposure to credit risk.

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.1 Financial risk factors (Continued)

### 3.1.3 Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The amount disclosed in the table is the contractual undiscounted cash flows.

| | Within 1 year RMB'000 | Over 1 year and within 2 years RMB'000 | Over 2 years and within 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **As at December 31, 2023** | | | | |
| Borrowings, principal (Note 32) | **166,027** | **362,319** | **115,000** | **643,346** |
| Interest payments on borrowings | **18,527** | **16,148** | **2,671** | **37,346** |
| Trade and notes payables (Note 28) | **1,341,258** | **—** | **—** | **1,341,258** |
| Other payables excluding accrued payroll and other taxes (Note 28) | **86,783** | **—** | **—** | **86,783** |
| Lease liabilities (Note 15) | **3,526** | **1,996** | **2,260** | **7,782** |
| | **1,616,121** | **380,463** | **119,931** | **2,116,515** |
| As at December 31, 2022 | | | | |
| Borrowings, principal (Note 32) | 286,862 | 116,124 | 253,600 | 656,586 |
| Interest payments on borrowings | 4,804 | 8,972 | 24,784 | 38,560 |
| Trade and notes payables (Note 28) | 1,495,834 | — | — | 1,495,834 |
| Other payables excluding accrued payroll and other taxes (Note 28) | 109,630 | — | — | 109,630 |
| Lease liabilities (Note 15) | 2,932 | 1,707 | 671 | 5,310 |
| | 1,900,062 | 126,803 | 279,055 | 2,305,920 |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital (including share capital, share premium and other reserves on an as-if converted basis) by regularly reviewing the capital structure. As a part of this review, the Directors of the Company consider the cost of capital and the risks associated with the issued share capital. The Group may adjust the amount of dividends paid to owners, return capital to owners, issue new shares or repurchase the Company's shares.

The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended December 31, 2022 and 2023.

The gearing ratios at December 31, 2022 and 2023 of the Group were as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Borrowings | **643,346** | 656,586 |
| Leases liabilities | **7,369** | 5,108 |
| Total debt | **650,715** | 661,694 |
| Total equity | **1,527,565** | 679,838 |
| Gearing ratio | **43%** | 97% |

The decrease in gearing ratio from December 31, 2022 to December 31, 2023 was mainly resulted from the increase of retained earnings and share premium.

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognized and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards.

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The following table presents the Group's financial assets and liabilities that are measured at fair value as at December 31, 2022 and 2023 by level of the inputs to valuation techniques used to measure fair value:

| | Level 1<br>RMB'000 | Level 2<br>RMB'000 | Level 3<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| December 31, 2023 | | | | |
| Wealth management products, structured deposits and certificate of deposits | **—** | **2,416** | **542,910** | **545,326** |
| Debt instruments at fair value through other comprehensive income | **—** | **—** | **31,637** | **31,637** |
| Total | **—** | **2,416** | **574,547** | **576,963** |
| December 31, 2022 | | | | |
| Wealth management products, structured deposits and certificate of deposits | — | 63,520 | 470,045 | 533,565 |
| Debt instruments at fair value through other comprehensive income | — | — | 95,229 | 95,229 |
| Total | — | 63,520 | 565,274 | 628,794 |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.3 Fair value estimation (Continued)

### (a) Financial instruments in level 1

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

### (b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The valuation technique is discounted cash flows that reflects the credit risk of various counterparties.

### (c) Financial instruments in level 3

If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for financial instruments.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.3 Fair value estimation (Continued)

### (c) Financial instruments in level 3 (Continued)

The following table presents the changes in level 3 items as at December 31, 2022 and 2023:

| | Certificate of deposits RMB'000 | Notes receivables RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Net opening balance as at January 1, 2022** | 337,925 | 118,957 | 456,882 |
| Acquisitions | 205,258 | 324,960 | 530,218 |
| Redemption | (90,408) | (349,681) | (440,089) |
| Net fair value gains on financial assets at FVTPL | 17,270 | — | 17,270 |
| Change in fair value through OCI | — | 975 | 975 |
| Change in ECL | — | 18 | 18 |
| **Net closing balance as at December 31, 2022** | 470,045 | 95,229 | 565,274 |
| **Net opening balance as at January 1, 2023** | **470,045** | **95,229** | **565,274** |
| Acquisitions | **153,879** | **759,174** | **913,053** |
| Redemption | **(90,000)** | **(824,019)** | **(914,019)** |
| Net fair value gains on financial assets at FVTPL | **8,986** | **—** | **8,986** |
| Change in fair value through OCI | **—** | **1,145** | **1,145** |
| Change in ECL | **—** | **108** | **108** |
| **Net closing balance as at December 31, 2023** | **542,910** | **31,637** | **574,547** |

# 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

## 3.3 Fair value estimation (Continued)

### (c) Financial instruments in level 3 (Continued)

The following table summarizes the quantitative information about the significant unobservable inputs used in level 3 fair value measurements of below financial instruments:

| Description | Fair value As at December 31, 2023 RMB'000 | 2022 RMB'000 | Significant unobservable inputs | Range of inputs Year ended December 31, 2023 RMB'000 | 2022 RMB'000 | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|---|
| Certificate of deposits | **542,910** | 470,045 | Expected rate of return | **2.25%–4.00%** | 1.45%–4.00% | The higher the expected rate, the higher the fair value |
| Notes receivables (debt instruments at fair value through other comprehensive income) | **31,637** | 95,229 | Discount rate | **2.28%–2.48%** | 2.40%–2.63% | The higher the discount rate, the lower the fair value |

If the expected rate of return had been 10% higher/lower, the fair values of wealth management products as at December 31, 2022 and 2023 would have been approximately RMB1,280,000 and RMB1,699,000 higher/lower, respectively.

If the discount rate had been 10% higher/lower, the fair values of notes receivables as at December 31, 2022 and 2023 would have been approximately RMB239,000 and RMB75,000 lower/higher, respectively.

# 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

## 4.1 Current and deferred income tax

The Group is subject to corporate income tax in the PRC. Significant judgement is required in determining the provision for corporate income tax. There are transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that we initially recorded, such difference will impact the current income tax and deferred tax provision in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognized when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilized. The outcome of their actual utilization may be different.

## 4.2 Impairment of trade receivables and other receivables

For trade receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognized from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of trade receivables and with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analyzed. Impairment on other receivables are measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

# 5 REVENUE AND SEGMENT REPORTING

## 5.1 Disaggregation of revenue from contract with customers

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Sales of goods | **5,017,533** | 4,727,769 |
| Revenue from services | **65,449** | 55,254 |
| | **5,082,982** | 4,783,023 |
| **Timing of revenue recognition** | | |
| At point in time | **5,017,533** | 4,727,769 |
| Over time | **65,449** | 55,254 |
| | **5,082,982** | 4,783,023 |

### Information about major customers

In 2022 and 2023, no individual customer's revenue contributed over 10% of the Group's revenue.

## 5.2 Segment information

The Group's business activities, for which discrete financial information is available, are regularly reviewed and evaluated by the chief operating decision maker ("**CODM**"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive Directors of the Company that make strategic decisions.

For management purposes, the Group is not organized into business units based on their products and services, the Group has only one reportable operating segment which is engaged in the development, manufacture and sale of electric vehicles and related accessories. Accordingly, no segment information is presented.

### Geographical information

Since over 90% of the Group's revenue and operating profit were generated from the sales of electric vehicles in the PRC and over 90% of the Group's non-current assets and liabilities were located in the PRC, no geographical information is presented in accordance with HKFRS 8 Operating Segments.

## 6 OTHER INCOME AND EXPENSE

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| **Other income** | | |
| Income from obsolete material and work in progress | **7,222** | 8,041 |
| Rental income from operating lease | **1,810** | 1,520 |
| Interest income from time deposits | **2,351** | 2,399 |
| Interest income from financing lease and long-term receivables | **1,141** | 204 |
| Government grants (Note) | **45,318** | 20,549 |
| Others | **4,878** | 5,037 |
| | **62,720** | 37,750 |
| **Other expense** | | |
| Cost of obsolete material and work in progress | **(5,131)** | (4,475) |
| Others | **(1,391)** | (1,618) |
| | **(6,522)** | (6,093) |

Note: The government grants mainly represented the general support, subsidies for stabilizing employment, tax refunds and other subsidies granted by the local governments.

## 7 OTHER GAINS — NET

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Exchange gains | **815** | 1,121 |
| Fair value changes on financial assets at fair value through profit or loss | **15,585** | 19,588 |
| Donation | **(529)** | (671) |
| Gains/(losses) on disposal of property, plant and equipment and right-of-use assets | **(209)** | 1,706 |
| Gains from disposal of a subsidiary | **—** | 27 |
| Gains from disposal of associates (Note 18) | **—** | 6,840 |
| Others — Net | **(6,934)** | 4,956 |
| | **8,728** | 33,567 |

## 8 EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing costs, administrative expenses and research and development costs are analyzed as follows:

| | Year ended December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Raw materials and consumables used | **4,069,415** | 3,919,913 |
| Employee benefits expenses (Note 9) | **330,078** | 293,055 |
| Advertising expense | **110,287** | 79,521 |
| Outsourcing labor fee | **147,993** | 122,990 |
| Freight | **41,490** | 40,772 |
| Travel expense | **43,366** | 33,338 |
| Consulting costs | **14,882** | 26,688 |
| Depreciation of property, plant and equipment (Note 14) | **85,946** | 69,950 |
| Amortization of intangible assets (Note 16) | **930** | 957 |
| Depreciation of right-of-use assets (Note 15) | **4,850** | 4,504 |
| Expense relating to short-term leases or low-value leases (Note 15) | **5,353** | 6,613 |
| Design fee | **50,901** | 35,583 |
| Warranty | **6,876** | 6,601 |
| Tax and surcharges | **19,497** | 18,571 |
| Office expense | **19,958** | 19,570 |
| Expense relating to listing | **24,223** | 15,087 |
| Auditors' remuneration | | |
| — Audit services | **2,424** | 279 |
| — Non-audit services | **350** | 17 |
| Other expenses | **27,791** | 26,806 |
| Total cost of sales, selling and marketing costs, administrative expenses and research and development costs | **5,006,610** | 4,720,815 |

## 9 EMPLOYEE BENEFIT EXPENSE

| | Year ended December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Wages, salaries and bonuses | **275,696** | 267,006 |
| Defined contribution plans | **20,932** | 15,599 |
| Other social security costs, housing benefits and other employee benefits | **15,485** | 10,450 |
| Share-based payment expenses (Note 34) | **17,965** | — |
| | **330,078** | 293,055 |

## 9 EMPLOYEE BENEFIT EXPENSE (CONTINUED)

The employees of the Group in the PRC are members of state-managed defined contribution scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs as determined by local government authority to the scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contribution under the scheme.

There were no forfeited contributions for the defined contribution scheme that may be used by the Group to reduce the existing level of contributions as the contributions are fully vested to the employees upon payment.

### (a) Directors' emoluments

| | For the year ended December 31, 2023 | | | | |
|---|---|---|---|---|---|
| | Fees RMB'000 | Salaries and other allowance RMB'000 | Retirement benefit scheme contribution RMB'000 | Share-based payment expenses RMB'000 | Total RMB'000 |
| **Executive Directors:** | | | | | |
| Mr. Ni Jie | — | 1,568 | — | — | 1,568 |
| Ms. Hu Jihong | — | 1,248 | — | — | 1,248 |
| Mr. Chen Guosheng | — | 1,152 | 17 | 1,853 | 3,022 |
| **Non-executive Director:** | | | | | |
| Mr. David Ross Dingman (resigned on March 18, 2024) | — | — | — | — | — |
| **Independent non-executive Directors:** | | | | | |
| Mr. Peng Haitao | 27 | — | — | — | 27 |
| Mr. Liu Bobin | 27 | — | — | — | 27 |
| Mr. Wu Xiaoya | 27 | — | — | — | 27 |
| Mr. Chan Chi Fung Leo | 70 | — | — | — | 70 |
| | 151 | 3,968 | 17 | 1,853 | 5,989 |

# 9 EMPLOYEE BENEFIT EXPENSE (CONTINUED)

## (a) Directors' emoluments (Continued)

| | For the year ended December 31, 2022 | | |
|---|---|---|---|
| | Salaries and other allowance RMB'000 | Retirement benefit scheme contribution RMB'000 | Total RMB'000 |
| **Executive Directors:** | | | |
| Mr. Ni Jie | 1,372 | — | 1,372 |
| Ms. Hu Jihong | 1,092 | — | 1,092 |
| Mr. Chen Guosheng | 1,152 | 16 | 1,168 |
| **Non-executive Director:** | | | |
| Mr. David Ross Dingman (resigned on March 18, 2024) | — | — | — |
| **Independent non-executive Directors:** | | | |
| Mr. Wang Wenyong (resigned on April 8, 2022) | — | — | — |
| Mr. Peng Haitao | — | — | — |
| Mr. Liu Bobin | — | — | — |
| Mr. Wu Xiaoya | — | — | — |
| | 3,616 | 16 | 3,632 |

(i) Mr. Wang Wenyong resigned from his position as a non-executive Director, with effect from April 8, 2022. Mr. Wang Wenyong was appointed as a non-executive Director by Shipston Electric Vehicle Limited ("**Shipston**", a shareholder of the Company), who resigned from Shipston on April 8, 2022 and resigned from the position of non-executive Director of the Group.

Shipston appointed Mr. David Ross Dingman as the non-executive Director as the replacement of Mr. Wang Wenyong.

(ii) Mr. David Ross Dingman was appointed as a non-executive Director of the Company with effect from April 8, 2022. Mr. David Ross Dingman has resigned from non-executive director since March 18, 2024.

(iii) Mr. Peng Haitao, Mr. Liu Bobin and Mr. Wu Xiaoya were appointed as independent non-executive Directors of the Company in July 2022.

(iv) Mr. Chan Chi Fung Leo was appointed as an independent non-executive Director of the Company in June 2023.

# 9 EMPLOYEE BENEFIT EXPENSE (CONTINUED)

## (a) Directors' emoluments (Continued)

Bonus is determined by reference to the market, individual performance and their respective contribution to the Group.

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

There were no amounts paid or payable by the Group to the Directors or any of the five highest paid individuals as disclosed in Note 9(b) to the consolidated financial statements as an inducement to join or upon joining the Group or as compensation for the loss of office during the years ended December 31, 2022 and 2023.

There were no arrangements under which a Director or the chief executive waived or agreed to waive any emoluments during the years ended December 31, 2022 and 2023.

## (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years include three Directors whose emoluments are reflected in the analysis shown in Note 9(a). The emoluments payable to the remaining two individuals during the years are as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **1,856** | 1,791 |
| Defined contribution plans | **18** | 17 |
| Other social security costs, housing benefits and other employee benefits | **20** | 20 |
| Share-based payment expenses (Note 34) | **2,832** | — |
| | **4,726** | 1,828 |

The number of the highest paid employees who are not Directors whose remuneration fell within the following band is as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| Nil to HKD1,000,000 | **—** | 2 |
| HKD1,000,001 to HKD2,000,000 | **—** | — |
| HKD2,000,001 to HKD2,500,000 | **1** | — |
| HKD2,500,001 to HKD3,000,000 | **1** | — |
| | **2** | 2 |

## 10 FINANCE INCOME/(COSTS) — NET

| | Year ended December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Finance costs | | |
| — Interest on bank loans and other loans | **(21,729)** | (24,682) |
| — Interest on lease liabilities | **(255)** | (91) |
| Total finance costs | **(21,984)** | (24,773) |
| Finance income | | |
| — Interest income on bank deposits | **32,661** | 21,038 |
| Net finance income/(costs) | **10,677** | (3,735) |

## 11 SUBSIDIARIES

Particulars of the subsidiaries of the Group as at December 31, 2022 and 2023 are as follows:

| Name of subsidiaries | Place of incorporation/ registration and place of operations | Date of incorporation/ registration | Issued shares/ registered capital | Paid up capital | Proportion of ownership interest and voting power As at December 31, 2023 | 2022 | As the date of this report | Principal activities | Note |
|---|---|---|---|---|---|---|---|---|---|
| Luyuan International Limited ("**Luyuan BVI**") | British Virgin Island | February 16, 2009 | USD3 | USD3 | **100%** | 100% | 100% | Investment holding | (i), (ix) |
| Luyuan International (Hong Kong) Limited ("**Luyuan HK**") | Hong Kong, the PRC | February 24, 2009 | HKD340,000,000 | HKD340,000,000 | **100%** | 100% | 100% | Investment holding | (v), (x) |
| Zhejiang Luyuan Electric Vehicle Co., Ltd. ("**Zhejiang Luyuan**") | Jinhua, the PRC | May 12, 2003 | USD102,000,000 | USD102,000,000 | **100%** | 100% | 100% | Manufacture of electric vehicles and accessories | (ii), (xi), (xiv) |
| Zhejiang Luyuan Information Technology Co., Ltd. | Jinhua, the PRC | May 28, 2015 | RMB80,000,000 | RMB80,000,000 | **100%** | 100% | 100% | Sale of electric vehicles and accessories | (ii), (xiii) |
| Luyuan Electric Vehicle (Shandong) Co., Ltd. ("**Shandong Luyuan**") | Linyi, the PRC | August 25, 2008 | RMB400,000,000 | RMB400,000,000 | **100%** | 100% | 100% | Manufacture of electric vehicles and accessories | (iii), (xiii) |
| Luyuan Electric Vehicle (Guangdong) Co., Ltd. ("**Guangdong Luyuan**") | Dongguan, the PRC | March 26, 2013 | RMB10,000,000 | RMB10,000,000 | **—** | 100% | — | Manufacture of electric vehicles and accessories | (i) (vi), (xiii) |
| Guangxi Luyuan Electric Vehicle Co., Ltd. ("**Guangxi Luyuan**") | Guigang, the PRC | August 28, 2019 | RMB100,000,000 | RMB100,000,000 | **100%** | 100% | 100% | Manufacture of electric vehicles and accessories | (ii), (xiii) |

## 11 SUBSIDIARIES (CONTINUED)

| Name of subsidiaries | Place of incorporation/ registration and place of operations | Date of incorporation/ registration | Issued shares/ registered capital | Paid up capital | Proportion of ownership interest and voting power | | | Principal activities | Note |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | As at December 31, | | As the date of this report | | |
| | | | | | **2023** | 2022 | | | |
| Jinhua Yicheng Trading Co., Ltd. ("**Jinhua Yicheng**") | Jinhua, the PRC | July 15, 2015 | RMB1,000,000 | RMB1,000,000 | **100%** | 100% | 100% | Sale of electric vehicles and accessories | (i), (xiii) |
| Zhejiang Jinhongzi Information Technology Co., Ltd. | Jinhua, the PRC | April 7, 2015 | RMB289,000,000 | RMB289,000,000 | **–** | – | – | Investment holding | (i), (vi), (xiii) |
| Zhejiang Hongzi Information Technology Co., Ltd. | Jinhua, the PRC | April 29, 2015 | RMB88,000,000 | RMB88,000,000 | **–** | – | – | Investment holding | (i), (vi), (xiii) |
| Jiangsu Luyuan Motor Vehicle Technology Co., Ltd. | Xuzhou, the PRC | March 18, 2019 | RMB20,000,000 | – | **–** | – | – | Manufacture of electric vehicles and accessories | (i), (vi), (xiii) |
| LYVA COMPANY LIMITED | Vietnam | July 27, 2015 | VND21,875,862,120 | VND21,875,862,120 | **–** | – | – | Sale of electric vehicles and accessories | (i), (iv) |
| Zhejiang Luyuan Electric Vehicle Sales Service Co., Ltd. (Former name: Ludong (Jinhua) New Energy Technology Co., Ltd.) ("**Luyuan Service**") | Jinhua, the PRC | August 16, 2021 | RMB35,000,000 | RMB35,000,000 | **100%** | 100% | 100% | Sale of electric vehicles and accessories | (i), (vii), (xiii) |
| Zhejiang Luyuan International Trade Co., Ltd. ("**Luyuan Int**") | Jinhua, the PRC | March 22, 2022 | RMB10,000,000 | – | **100%** | 100% | 100% | Import and export of goods | (i), (viii), (xiii) |
| Luyuan Technology Holding (Zhejiang) Co., Ltd. | Jinhua, the PRC | December 7, 2021 | RMB50,000,000 | – | **100%** | 100% | 100% | Investment holding | (i), (xiv) |
| Chongqing Luyuan Electric Vehicle Co., Ltd. ("**Chongqing Luyuan**") | Chongqing, the PRC | October 25, 2023 | RMB200,000,000 | RMB1,000,000 | **100%** | – | 100% | Manufacture of electric vehicles and accessories | (i), (viii), (xiii) |

Notes:

(i) No audited financial statements have been prepared for these entities for the years ended December 31, 2022 and 2023.

(ii) The statutory financial statements of those companies for the year ended December 31, 2022 were audited by Jinhua Antai Certified Public Accountant Co., Ltd. No audited financial statements have been prepared for these entities for the year ended December 31, 2023.

## 11 SUBSIDIARIES (CONTINUED)

Notes: (Continued)

(iii) The statutory financial statements of Shandong Luyuan for the year ended December 31, 2022 were audited by Linyi Shengda United Certified Public Accountants. No audited financial statements have been prepared for this entity for the year ended December 31, 2023.

(iv) In September 2022, the Group disposed its subsidiary, LYVA COMPANY LIMITED to TRINH HUYEN CHANG, a third party at a consideration of VND100,000,000 (equivalent to RMB28,800) (Note 7).

(v) The statutory financial statements of Luyuan HK for the year ended December 31, 2022 were audited by Capital Partners CPA limited. No audited financial statements have been prepared for this entity for the year ended December 31, 2023.

(vi) Subsidiaries deregistered during the years ended December 31, 2022 and 2023. In 2022, the Group deregistered its subsidiaries, Zhejiang Jinhongzi Information Technology Co., Ltd., Jiangsu Luyuan Motor Vehicle Technology Co., Ltd. and Zhejiang Hongzi Information Technology Co., Ltd.. In 2023, the Group deregistered Guangdong Luyuan.

(vii) In 2021, Luyuan Service was transferred from Jinhuashi Luyuan Electric Vehicle Co., Ltd., a company established in the PRC and then owned as to 95% by Mr. Ni Jie and 5% by Ms. Hu Jihong, to Zhejiang Luyuan in order to increase the land reserves available to Zhejiang Luyuan to enhance the production capabilities in Zhejiang, at an aggregate consideration of RMB37,089,000. The aforesaid consideration was determined based on valuation of the properties held by Luyuan Service conducted by independent valuer and had been fully settled by June 8, 2022.

(viii) Subsidiaries established during the years ended December 31, 2022 and 2023. In 2022, a wholly-owned subsidiary Luyuan Int was established in the PRC with registered capital of RMB10,000,000. As at December 31, 2023, the Group has not paid the subscribed capital of Luyuan Int. In 2023, a wholly-owned subsidiary Chongqing Luyuan was established in the PRC. The registered capital of Chongqing Luyuan is RMB200,000,000. The Group has paid up RMB1,000,000 capital of Chongqing Luyuan as at December 31, 2023 and has subsequently paid up RMB10,000,000 and RMB40,000,000 in January 2024 and February 2024, respectively.

(ix) The Board of directors of the Company made a resolution to make an investment of USD90 million in Luyuan BVI, pursuant to which the Company paid up HKD330,001,000 to subscribe 2 ordinary shares of Luyuan BVI for a total consideration of USD2 and the remaining was recorded as Luyuan BVI's share premium. As at December 31, 2023, the authorized shares of Luyuan BVI were USD3.

(x) The Board of directors of the Company made a resolution for Luyuan BVI to make an investment of USD90 million in Luyuan HK, pursuant to which Luyuan BVI paid up HKD330,000,000 to subscribe 703,944,000 ordinary shares of Luyuan HK in November 2023. As at December 31, 2023, the authorized shares of Luyuan HK were HKD340,000,000.

(xi) The Board of directors of the Company made a resolution that Luyuan HK to make an investment of USD90 million in Zhejiang Luyuan, pursuant to which Luyuan HK has paid up RMB303,540,000 capital of Zhejiang Luyuan in November 2023. As at December 31, 2023, the registered capital of Zhejiang Luyuan were USD102,000,000.

(xii) On July 20, 2023, Best Expand transferred 16,736,000 shares to the Trusty Company at nil consideration for the purpose of settling options when exercised under the Pre-IPO Share Scheme (Note 21 (d) and Note 34). The Trusty Company is consolidated by the Group in accordance with the principles in Note 2.2 (a).

(xiii) These entities are PRC limited liability companies.

(xiv) These entities are wholly foreign owned enterprises in the PRC.

## 12 INCOME TAX EXPENSES

This note provides an analysis of the Group's income tax expenses, and shows what amounts are recognized directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| PRC corporate income tax | **626** | 347 |
| Deferred income tax (Note 25) | **4,907** | 3,871 |
| Total income tax expenses | **5,533** | 4,218 |

### (a) Cayman Islands income tax

Under the current laws of the Cayman Islands, the Company is not subject to tax on the Company's income or capital gains. In addition, no Cayman Islands withholding tax is imposed upon any payments of dividends.

### (b) British Virgin Islands income tax

Under the current laws of the British Virgin Islands, our subsidiary incorporated in British Virgin Islands is not subject to income tax.

### (c) Hong Kong income tax

Entities incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 8.25% on assessable profits up to HKD2 million and 16.5% on any part of assessable profits over HKD2 million for the years presented.

### (d) PRC corporate income tax ("CIT")

CIT provision was made on the estimated assessable profits of entities within the Group incorporated in the PRC for the years ended December 31, 2022 and 2023, calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC CIT rate is 25% during the year ended December 31, 2022 and 2023 except:

- In 2021, Zhejiang Luyuan applied the extension of the high-tech certificate originally obtained in December 2009. The latest high-tech certificate was obtained in December 2021 with an effective period for 3 years. The income tax rate for the year ended December 31, 2022 and 2023 is 15%.

- In 2020, Shandong Luyuan applied the extension of the high-tech certificate originally obtained in December 2017. The latest high-tech certificate was obtained in November 2023 with an effective period for 3 years. The income tax rate for the year ended December 31, 2022 and 2023 is 15%.

## 12 INCOME TAX EXPENSES (CONTINUED)

### (d) PRC corporate income tax ("CIT") (Continued)

- Jinhua Yicheng and Luyuan Service are small low-profit enterprises during the years ended December 31, 2022 and 2023. During the period from January 1, 2022 to December 31, 2022, the portion of annual taxable income amount of a small low-profit enterprise which does not exceed RMB1 million shall be computed at a reduced rate of 12.5% as taxable income amount, and be subject to enterprise income tax at 20% tax rate; the portion of annual taxable income amount which exceeds RMB1 million but does not exceed RMB3 million shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20% tax rate. During the period from January 1, 2023 to December 31, 2023, the portion of annual taxable income amount of a small low-profit enterprise which does not exceed RMB3 million shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20% tax rate.

According to relevant laws and regulations promulgated by the State Administration of Tax of the PRC effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 200% of their qualified research and development expenses so incurred as tax deductible expenses when determining their assessable profits for the years ended December 31, 2022 and 2023. The Group has made its best estimate for the super deduction to be claimed for the subsidiaries in ascertaining their assessable profits for the period.

### (e) PRC withholding tax

According to the applicable PRC tax regulations, dividends distributed by a company established in the PRC to a foreign investor with respect to profits derived after January 1, 2008 are generally subject to a 10% withholding tax rate. If a foreign investor incorporated in Hong Kong meets the conditions and requirements under the double taxation treaty arrangement between the PRC and Hong Kong, the relevant withholding tax rate will be reduced from 10% to 5%.

The Directors of the Company had confirmed that retained earnings of the Group's PRC subsidiaries as at December 31, 2023 will not be distributed in the foreseeable future. The Group controls the dividend policies of these subsidiaries and it has been determined that the remaining earnings as at December 31, 2023 will not be distributed in the foreseeable future. The Group did not recognize deferred income tax for PRC withholding income tax with amount of RMB60,498,500 and RMB72,003,700 as at December 31, 2022 and 2023, respectively, on the remaining unremitted distributable profits generated by its PRC subsidiaries attributable to the investors outside the PRC with amount of RMB604,985,000 and RMB720,037,000 as at December 31, 2022 and 2023, respectively.

## 12 INCOME TAX EXPENSES (CONTINUED)

### (e) PRC withholding tax (Continued)

The tax on the Group' s profit before income tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profit of the consolidated entities as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Profit before income tax | **151,140** | 122,248 |
| Income tax calculated at statutory rate of 25% | **37,786** | 30,562 |
| Tax effect of preferential tax rate | **(2,893)** | (690) |
| Effect of tax rate difference | **957** | 1,109 |
| Super deduction in respect of R&D expenditures | **(37,872)** | (29,921) |
| Additional deduction of 100% of the wages paid to disabled employees | **(473)** | (500) |
| Share of results of associates | **(18)** | (50) |
| Non-deductible expenses | **3,820** | 3,658 |
| Tax losses and temporary differences for which no deferred tax assets were recognized | **4,226** | 50 |
| Total income tax expense | **5,533** | 4,218 |

# 13 EARNINGS PER SHARE

## (a) Basic earnings per share

Basic earnings per share ("**EPS**") is calculated by dividing the profit of the Group attributable to the equity holders of the Company by the weighted average number of ordinary shares in issue during each period. In determining the weighted average number of ordinary shares in issue during the years ended December 31, 2022 and 2023, the 288,000,000 shares issued and allotted through capitalization of the share premium account of the Company upon listing on the Stock Exchange on the Listing Date (Note 33) have been regarded as if these shares were in issue since January 1, 2022.

| | **Year ended December 31,** | |
|---|---|---|
| | **2023** | 2022 |
| Profit attributable to equity holders of the Company (RMB'000) | **145,607** | 118,030 |
| Weighted average number of shares in issue (in thousand) | **335,859** | 320,000 |
| Basic earnings per share (RMB per share) | **0.43** | 0.37 |

## (b) Dilute earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Options granted to employees under the Pre-IPO Share Scheme are considered to be potential ordinary shares. Details relating to the options are set out in Note 34.

| | **Year ended December 31,** | |
|---|---|---|
| | **2023** | 2022 |
| Profit attributable to equity holders of the Company (RMB'000) | **145,607** | 118,030 |
| Weighted average number of ordinary shares in issue (in thousand) | **335,859** | 320,000 |
| Adjustments for share based compensation — Options under the Pre-IPO Share Scheme (in thousand) | **1,651** | — |
| Weighted average number of ordinary shares for the calculation of diluted EPS (in thousand) | **337,510** | 320,000 |
| Diluted earnings per share (RMB per share) | **0.43** | 0.37 |

## 14 PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Machinery & equipment RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Decoration and leasehold improvement RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **As at January 1, 2022** | 499,521 | 386,612 | 25,897 | 22,358 | 145,926 | 16,539 | 1,096,853 |
| Additions | — | 152 | 237 | — | 160,038 | 7,254 | 167,681 |
| Transfers | 163,981 | 79,237 | 4,557 | 323 | (248,098) | — | — |
| Disposals | — | (8,898) | (356) | (4,158) | (148) | — | (13,560) |
| **As at December 31, 2022** | 663,502 | 457,103 | 30,335 | 18,523 | 57,718 | 23,793 | 1,250,974 |
| **Accumulated depreciation** | | | | | | | |
| **As at January 1, 2022** | (135,462) | (162,053) | (19,220) | (18,268) | — | (14,160) | (349,163) |
| Depreciation charge | (26,322) | (38,043) | (2,674) | (1,410) | — | (1,501) | (69,950) |
| Disposals | — | 7,977 | 337 | 3,950 | — | — | 12,264 |
| **As at December 31, 2022** | (161,784) | (192,119) | (21,557) | (15,728) | — | (15,661) | (406,849) |
| **Net book value** | | | | | | | |
| **As at December 31, 2022** | 501,718 | 264,984 | 8,778 | 2,795 | 57,718 | 8,132 | 844,125 |
| **Cost** | | | | | | | |
| **As at January 1, 2023** | **663,502** | **457,103** | **30,335** | **18,523** | **57,718** | **23,793** | **1,250,974** |
| Additions | **10,479** | **2** | **375** | **—** | **179,046** | **11,081** | **200,983** |
| Transfers | **40,371** | **91,919** | **17,200** | **284** | **(149,774)** | **—** | **—** |
| Disposals | **—** | **(4,839)** | **(1,644)** | **(436)** | **—** | **—** | **(6,919)** |
| **As at December 31, 2023** | **714,352** | **544,185** | **46,266** | **18,371** | **86,990** | **34,874** | **1,445,038** |
| **Accumulated depreciation** | | | | | | | |
| **As at January 1, 2023** | **(161,784)** | **(192,119)** | **(21,557)** | **(15,728)** | **—** | **(15,661)** | **(406,849)** |
| Depreciation charge | **(31,482)** | **(46,655)** | **(3,709)** | **(849)** | **—** | **(3,251)** | **(85,946)** |
| Disposals | **—** | **4,427** | **1,557** | **414** | **—** | **—** | **6,398** |
| **As at December 31, 2023** | **(193,266)** | **(234,347)** | **(23,709)** | **(16,163)** | **—** | **(18,912)** | **(486,397)** |
| **Net book value** | | | | | | | |
| **As at December 31, 2023** | **521,086** | **309,838** | **22,557** | **2,208** | **86,990** | **15,962** | **958,641** |

During the year ended December 31, 2023, the addition of buildings represented the pledged assets and other assets received from Linyi Luyuan Real Estate Co., Ltd. ("**Linyi Luyuan**") in March 2023 for settling its amount due to the Group (Note 24(c)).

## 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation expenses have been charged to the consolidated income statement as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Cost of sales | **48,463** | 36,935 |
| Administrative expenses | **13,685** | 13,699 |
| Selling and marketing costs | **5,544** | 4,904 |
| Research and development costs | **18,254** | 14,412 |
| | **85,946** | 69,950 |

As at December 31, 2022 and 2023, the net book value of property, plant and equipment and right-of-use assets which were pledged as collateral for the Group's borrowings is as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Net book value of property, plant and equipment pledged as collateral | **495,626** | 478,665 |
| Net book value of right-of-use assets pledged as collateral (Note 15) | **88,364** | 81,924 |
| Borrowings secured by property, plant and equipment and right-of-use assets (Note 32) | **434,800** | 375,000 |

# 15 LEASE

## (a) Amounts recognized in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| **Right-of-use assets** | | |
| — Land use rights | **88,364** | 90,545 |
| — Leased property | **8,128** | 5,177 |
| | **96,492** | 95,722 |
| **Lease liabilities** | | |
| Current | **(3,308)** | (2,798) |
| Non-current | **(4,061)** | (2,310) |
| | **(7,369)** | (5,108) |

## (b) Amounts recognized in the consolidated income statement

The consolidated income statement show the following amounts relating to leases:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Depreciation charge of right-of-use assets | | |
| — Land use rights | **2,180** | 2,191 |
| — Leased property | **2,670** | 2,313 |
| | **4,850** | 4,504 |
| Interest expense (included in finance costs — Note 10) | **(255)** | (91) |
| Expense relating to short-term leases or low-value assets (included in expenses by nature — Note 8) | **5,353** | 6,613 |

## 15 LEASE (CONTINUED)

### (b) Amounts recognized in the consolidated income statement (Continued)

The carrying amounts of the Group's right-of-use assets and the movements during the years ended December 31, 2022 and 2023 are as follows, respectively:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| **At the beginning of the year** | **95,722** | 95,084 |
| Additions | **6,855** | 5,365 |
| Depreciation charge | **(4,850)** | (4,504) |
| Disposals | **(1,235)** | (223) |
| **At the end of the year** | **96,492** | 95,722 |

### (c) Amounts recognized in the consolidated statement of cash flows

The consolidated statement of cash flows show the following amounts relating to leases:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Cash used in operating activities for leases | **5,438** | 6,828 |
| Cash used in investing activities for leases | **—** | 9,391 |
| Cash used in financing activities for leases | **3,561** | 2,936 |
| Total cash outflows for leases | **8,999** | 19,155 |

### (d) The Group's leasing activities and how these are accounted for:

The Group leases various offices and apartments. Rental contracts are typically made for fixed periods of 1 to 5 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

**(e)** Part of right-of-use assets are pledged as collateral for the Group's borrowings (refer to Note 14).

## 16 INTANGIBLE ASSETS

| | Software RMB'000 |
|---|---|
| **At January 1, 2022** | |
| Cost | 9,306 |
| Accumulated amortization | (6,732) |
| **Net book amount** | 2,574 |
| **Year ended December 31, 2022** | |
| Opening net book amount | 2,574 |
| Additions | 94 |
| Amortization charge (Note 8) | (957) |
| **Closing net book amount** | 1,711 |
| **At December 31, 2022** | |
| Cost | 9,400 |
| Accumulated amortization | (7,689) |
| **Net book amount** | 1,711 |
| **At January 1, 2023** | |
| Cost | **9,400** |
| Accumulated amortization | **(7,689)** |
| **Net book amount** | **1,711** |
| **Year ended December 31, 2023** | |
| Opening net book amount | **1,711** |
| Additions | **287** |
| Amortization charge (Note 8) | **(930)** |
| **Closing net book amount** | **1,068** |
| **At December 31, 2023** | |
| Cost | **6,750** |
| Accumulated amortization | **(5,682)** |
| **Net book amount** | **1,068** |

## 16 INTANGIBLE ASSETS (CONTINUED)

Amortization expenses have been charged to the consolidated income statement as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Administrative expenses | **930** | 957 |

## 17 FINANCIAL INSTRUMENTS BY CATEGORY

| | | As at December 31, | |
|---|---|---|---|
| | | **2023** | 2022 |
| | Note | **RMB'000** | RMB'000 |
| **Financial assets** | | | |
| **Financial assets at amortized cost:** | | | |
| Trade and notes receivables | 23 | **214,059** | 285,631 |
| Lease receivables | 23 | **9,439** | 19,417 |
| Other receivables excluding prepayments | 24 | **6,704** | 10,365 |
| Time deposits | 26 | **243,800** | 119,200 |
| Cash and cash equivalents | 27 | **994,968** | 395,038 |
| Restricted cash | 27 | **168,980** | 81,820 |
| **Financial assets at fair value:** | | | |
| Financial assets at fair value through profit or loss (FVTPL) | 19 | **545,326** | 533,565 |
| Debt instruments at fair value through other comprehensive income | 20 | **31,637** | 95,229 |
| | | **2,214,913** | 1,540,265 |

| | | As at December 31, | |
|---|---|---|---|
| | | **2023** | 2022 |
| | Note | **RMB'000** | RMB'000 |
| **Financial liabilities** | | | |
| **Financial liabilities at amortized cost:** | | | |
| Borrowings | 32 | **643,346** | 656,586 |
| Trade and notes payables | 28 | **1,341,258** | 1,495,834 |
| Other payables | 28 | **86,783** | 109,630 |
| Lease liabilities | 15 | **7,369** | 5,108 |
| | | **2,078,756** | 2,267,158 |

## 18 INVESTMENTS IN AN ASSOCIATE — GROUP

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Opening balance | **1,444** | 1,243 |
| Share of results | **73** | 201 |
| Ending balance | **1,517** | 1,444 |

The particulars of the associate of the Group during the years ended December 31, 2022 and 2023, which is unlisted, are set out as follows:

| **Companies name** | **Country/date of incorporation** | **Paid-in capital** | **% interests held As at December 31,** | | **Principle activities** |
|---|---|---|---|---|---|
| | | | **2023** | 2022 | |
| Jinhua Luchi New Energy Technology Co., Ltd. ("**Jinhua Luchi**") (Note) | Jinhua city, the PRC/ November 9, 2016 | RMB2,600,000 | **16** | 16 | Development and manufacture of vehicle batteries |

Note: In 2016, the Group established Jinhua Luchi with Jinhua Keyuan Power Technology Co., Ltd. in the PRC and held 50% of its equity interests. In 2019, the Group agreed to increase capital of Jinhua Luchi and other shareholder injected RMB1,000,000 to Jinhua Luchi, which has diluted the Group's equity interests in Jinhua Luchi to 16%. Jinhua Luchi has been accounted for using the equity method since the Group has significant influence over Jinhua Luchi through its representation on the Board of directors of Jinhua Luchi.

In 2022, the Group disposed its equity interests in two associates Fujian Yizhou Power Technology Co., Ltd. and Hangzhou Guangyang Power Technology Co., Ltd. with total gains from disposal of the associates amounting to RMB6,840,000 (Note 7).

The table below provide summarized financial information for the associate Jinhua Luchi which is not material to the Group.

| | **Total assets RMB'000** | **Total liabilities RMB'000** | **Total revenue RMB'000** | **Net profit RMB'000** |
|---|---|---|---|---|
| Year ended December 31, 2023 | **19,884** | **(14,470)** | **32,791** | **456** |
| Year ended December 31, 2022 | 15,688 | (10,990) | 29,963 | 1,255 |

There were no commitments or contingent liabilities relating to the Group's interests in the associate as at December 31, 2022 and 2023.

## 19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Certificate of deposits | **542,910** | 470,045 |
| Wealth management products and structured deposits | **2,416** | 63,520 |
| | **545,326** | 533,565 |

As at December 31, 2022 and 2023, the Group's wealth management products and structured deposits and certificate of deposits were pledged as security for the Group's notes payable is as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| — Notes payable secured by wealth management products and structured deposits and certificate of deposits | **455,000** | 448,500 |
| — Net book value of wealth management products and structured deposits and certificate of deposits pledged as collateral | **447,382** | 435,000 |

## 20 DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Notes receivables | **31,637** | 95,229 |

# 21 OTHER RESERVES

| Group | Foreign currency translation RMB'000 (Note (a)) | Statutory surplus reserve RMB'000 (Note (b)) | Other comprehensive income RMB'000 | Share-based payment reserves RMB'000 (Note 34) | Treasury shares RMB'000 (Note (d)) | Others RMB'000 (Note (c)) | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2022** | 12,545 | 99,649 | (1,852) | – | – | 131,541 | 241,883 |
| Changes in the fair value of debt instruments at fair value through OCI, net off tax | – | – | 731 | – | – | – | 731 |
| Currency translation differences | 973 | – | – | – | – | – | 973 |
| Appropriations to statutory reserve | – | 3,630 | – | – | – | – | 3,630 |
| **Balance at December 31, 2022** | 13,518 | 103,279 | (1,121) | – | – | 131,541 | 247,217 |
| **Balance at January 1, 2023** | **13,518** | **103,279** | **(1,121)** | **–** | **–** | **131,541** | **247,217** |
| Changes in the fair value of debt instruments at fair value through OCI, net off tax | **–** | **–** | **859** | **–** | **–** | **–** | **859** |
| Currency translation differences | **(5,444)** | **–** | **–** | **–** | **–** | **–** | **(5,444)** |
| Appropriations to statutory reserve | **–** | **19,208** | **–** | **–** | **–** | **–** | **19,208** |
| Share-based payments | **–** | **–** | **–** | **17,965** | **–** | **–** | **17,965** |
| Acquisition of shares for Pre-IPO Share Scheme | **–** | **–** | **–** | **–** | **12** | **(12)** | **–** |
| **Balance at December 31, 2023** | **8,074** | **122,487** | **(262)** | **17,965** | **12** | **131,529** | **279,805** |

## 21 OTHER RESERVES (CONTINUED)

Notes:

**(a) Foreign currency translation**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and exchange differences on monetary items which form part of the Group's net investment in foreign operations, provided certain conditions are met.

**(b) Statutory surplus reserve**

In accordance with the Company Law of the PRC and the articles of association of the PRC subsidiaries, these subsidiaries registered in the PRC shall appropriate 10% of its annual statutory profit (after offsetting any prior years' losses) to the statutory surplus reserve ("**SSR**") account. When the balance of SSR reaches 50% of the registered capital/share capital of these subsidiaries, any further appropriation is optional. The SSR can be utilized to offset prior years' losses or to increase paid-in capital. However, SSR shall be maintained at a minimum of 25% of registered capital/share capital after such utilization.

The SSR are non-distributable except in the event of liquidation and subject to certain restrictions set out in the relevant PRC regulations.

**(c)** The others included below:

— Merger reserve of RMB145,879,000: Merger reserve represented the net asset value of the subsidiaries comprising the Group acquired by the Company in excess of the nominal value of the Company's shares issued for the interests of the subsidiaries pursuant to the reorganization in 2010.

— Redemption reserve of negative RMB14,338,000: Pursuant to a share subscription agreement dated April 22, 2015 entered into between the Company, New Healthcare PPE and New Power PPE, New Healthcare PPE and New Power PPE subscribed 1,017,961 shares and 1,542,039 shares of the Company, at a total consideration of USD10,811,500. On September 3, 2018, all shares issued to New Healthcare PPE and New Power PPE were repurchased by the Company at a consideration of USD5,154,454.8 and USD7,813,800, respectively. The difference between the repurchase consideration and the equity interests held by New Healthcare PPE and New Power PPE was debited to equity as redemption reserve.

**(d) Treasury shares**

On July 20, 2023, Best Expand transferred 16,736,000 shares to the Trusty Company at nil consideration for the purpose of settling options when exercised under the Pre-IPO Share Scheme (Note 11 (xii) and Note 34).

## 22 INVENTORIES

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Raw materials | **61,237** | 97,582 |
| Work in progress | **22,365** | 50,927 |
| Finished goods | **168,665** | 295,046 |
| Goods in transit | **1,761** | 2,117 |
| | **254,028** | 445,672 |

No inventory provision was made for the years ended December 31, 2022 and 2023.

During the years ended December 31, 2022 and 2023, inventories recognized as cost of sales amounted to approximately RMB3,919,913,000 and RMB4,069,415,000 respectively.

## 23 TRADE AND NOTES AND LEASE RECEIVABLES

### (a) Trade receivables — current and notes receivables

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Trade receivables — current | **199,565** | 189,664 |
| Less: Provision for impairment of receivables — current | **(19,727)** | (22,212) |
| | **179,838** | 167,452 |

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Notes receivables | **29,790** | 118,850 |
| Less: Provision for impairment of receivables | **(112)** | (436) |
| | **29,678** | 118,414 |
| | **209,516** | 285,866 |

## 23 TRADE AND NOTES AND LEASE RECEIVABLES (CONTINUED)

### (a) Trade receivables — current and notes receivables (Continued)

The ageing analysis of trade receivables — current, based on the revenue recognition date is as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Less than 1 year | **159,912** | 167,566 |
| Between 1 and 2 years | **29,745** | 4,212 |
| Between 2 and 3 years | **2,327** | 2,558 |
| Over 3 years | **7,581** | 15,328 |
| | **199,565** | 189,664 |

### (b) Lease receivables

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Finance lease receivables — current (Note 38 (c)) | **9,700** | 9,178 |
| Finance lease receivables — non-current (Note 38 (c)) | **—** | 10,239 |
| | **9,700** | 19,417 |
| Less: Provision for impairment of receivables — current | **(261)** | (235) |
| Less: Provision for impairment of receivables — non-current | **—** | (263) |
| | **(261)** | (498) |
| | **9,439** | 18,919 |

During the year ended December 31, 2022, the Group sold goods amounting to RMB16,337,000 to Jinhua Hongzi Investment Holding Co., Ltd. ("**Jinhua Hongzi**") under a finance lease as a manufacturer lessor. The finance lease was with a period of 2 years. There was no new sales under finance leases as a manufacturer lessor during the year ended December 31, 2023.

## 23 TRADE AND NOTES AND LEASE RECEIVABLES (CONTINUED)

### (b) Lease receivables (Continued)

The amount of lease receivables to be received is as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Less than 1 year | **9,700** | 9,178 |
| Over 1 year | **—** | 10,239 |
| | **9,700** | 19,417 |

### (c) Trade receivables — non-current

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Trade receivables — non-current | **4,669** | — |
| Less: Provision for impairment of receivables — non-current | **(126)** | — |
| | **4,543** | — |

During the year ended December 31, 2023, the Group sold goods amounting to RMB11,394,000 to Jinhua Hongzi with a total receivable of RMB13,410,000 under an installment arrangement with a period of 2 years, including a non-current portion of receivable of RMB4,669,000 as at December 31, 2023.

The ageing analysis of trade receivables — non-current, based on the revenue recognition date is as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Less than 1 year | **4,669** | — |
| Over 1 year | **—** | — |
| | **4,669** | — |

Majority of Group's trade and notes and lease receivables were denominated in RMB.

## 24 OTHER RECEIVABLES AND PREPAYMENTS

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Non-current | | |
| Prepayments for construction and equipment | **20,977** | 29,459 |
| Deposits | **1,512** | 1,496 |
| Payment of decoration costs (a) | **105,250** | 85,113 |
| Less: Provision for impairment of other receivables | **(41)** | (40) |
| | **127,698** | 116,028 |
| Current | | |
| Prepayments for raw materials | **17,436** | 25,384 |
| Prepaid expenses | **64,591** | 11,567 |
| Prepaid taxes and surcharges and input VAT to be deducted | **11,327** | 10,865 |
| Receivables from disposal of land use rights (b) | **20,000** | 20,000 |
| Loans to a related party (c) | **—** | 11,000 |
| Loans to third parties (d) | **3,358** | 5,648 |
| Deposits | **1,320** | 1,360 |
| Payment of decoration costs (a) | **104,403** | 70,162 |
| Prepayments for listing expenses | **—** | 5,745 |
| Others | **11,099** | 9,097 |
| Less: Provision for impairment of other receivables | **(30,542)** | (38,196) |
| | **202,992** | 132,632 |
| | **330,690** | 248,660 |

(a) The Group provides reimbursement for store decoration to distributors, which are in substance payment to customer. The reimbursement is capitalized as prepayment to distributors and subsequently deducted from revenue consistent with the method to recognize revenue from sale of products.

(b) In May 2016, the Group transferred two pieces of land use rights located in the development zone of Yinan County to Yinan County Urban State owned Assets Operation Co., Ltd. with a consideration of RMB80 million, among which, RMB60 million had been paid in prior year and remaining RMB20 million had not been paid yet. The Group has made full provision for the balances.

## 24 OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(c) As at December 31, 2022 and 2023, the balances due from a related party represented the loan to Linyi Luyuan in 2019, which were secured by apartments and shops owned by Linyi Luyuan, with an annual interest rate of 6%. The original maturity period was one year and subsequently extended one year until December 31, 2021. The Group filed a lawsuit to Linyi Luyuan in July 2022 for this loan and made an impairment provision of RMB4,688,000 for this loan as at December 31, 2022, taking into account of its collateral. In March 2023, Linyi Luyuan settled the amount due to the Group with its pledged assets and other assets (Note 14).

(d) Loans to third parties represented the loans to certain distributors, with period ranging from 12 months to 42 months and an annual interest rate ranging from 3.85% to 4.6%. The Group has made a full impairment provision for the loans to third parties.

The maximum exposure to credit risk at each of the reporting period ends is the carrying value of each class of receivables mentioned above.

As at December 31, 2022 and 2023, the fair value of other receivables approximate their carrying amounts.

As at December 31, 2022 and 2023, the carrying amounts of other receivables and prepayments are denominated in RMB.

## 25 DEFERRED INCOME TAX

| | As at December 31, | |
|---|---|---|
| | **2023**<br>**RMB'000** | 2022<br>RMB'000 |
| Deferred tax assets to be recovered | | |
| — within 12 months | **14,061** | 12,354 |
| — after 12 months | **7,490** | 11,496 |
| | **21,551** | 23,850 |
| Deferred tax liabilities to be settled | | |
| — within 12 months | **(9,715)** | (6,821) |
| — after 12 months | **—** | — |
| | **(9,715)** | (6,821) |
| Deferred tax assets, net | **11,836** | 17,029 |

## 25 DEFERRED INCOME TAX (CONTINUED)

The movement in deferred income tax assets and liabilities during each of the years, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

### Deferred income tax assets

| | Tax losses RMB'000 | Loss allowances for financial assets RMB'000 | Lease liabilities RMB'000 | Government grants RMB'000 | Accrued expenses and warranties RMB'000 | Share-based payment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At December 31, 2021 | 4,547 | 12,543 | 688 | 4,773 | 1,715 | – | 24,266 |
| (Charged)/credited to the consolidated income statement | (621) | (1,488) | 611 | 1,756 | (674) | – | (416) |
| At December 31, 2022 | 3,926 | 11,055 | 1,299 | 6,529 | 1,041 | – | 23,850 |
| At December 31, 2022 | **3,926** | **11,055** | **1,299** | **6,529** | **1,041** | **–** | **23,850** |
| (Charged)/credited to the consolidated income statement | **(1,935)** | **(2,372)** | **1,109** | **(2,315)** | **244** | **2,970** | **(2,299)** |
| At December 31, 2023 | **1,991** | **8,683** | **2,408** | **4,214** | **1,285** | **2,970** | **21,551** |

The PRC subsidiaries of the Group had unrecognized tax losses available to offset against future profits as follows:

| | As at December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| 2024 | **2,787** | 2,787 |
| 2025 | **4,426** | 4,426 |
| 2026 and after | **2,672** | 225 |
| | **9,885** | 7,438 |

## 25 DEFERRED INCOME TAX (CONTINUED)

### Deferred income tax liabilities

| | Right-of-use assets RMB'000 | Fair value change of financial instruments RMB'000 | Total RMB'000 |
|---|---|---|---|
| At December 31, 2021 | (661) | (2,462) | (3,123) |
| Charged to OCI | — | (243) | (243) |
| Charged to the consolidated income statement | (291) | (3,164) | (3,455) |
| At December 31, 2022 | (952) | (5,869) | (6,821) |
| At December 31, 2022 | **(952)** | **(5,869)** | **(6,821)** |
| Charged to OCI | **—** | **(286)** | **(286)** |
| Charged to the consolidated income statement | **(1,327)** | **(1,281)** | **(2,608)** |
| At December 31, 2023 | **(2,279)** | **(7,436)** | **(9,715)** |

### Net impact to income statement and other comprehensive income

| | Year ended December 31, | |
|---|---|---|
| | **2023 RMB'000** | 2022 RMB'000 |
| **Deferred income tax assets** | | |
| Charged to the consolidated income statement | **(2,299)** | (416) |
| | **(2,299)** | (416) |
| **Deferred income tax liabilities** | | |
| Charged to OCI | **(286)** | (243) |
| Charged to the consolidated income statement | **(2,608)** | (3,455) |
| | **(2,894)** | (3,698) |
| | **(5,193)** | (4,114) |

## 26 TIME DEPOSITS

| | As at December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Non-current | | |
| Time deposits denominated in RMB | **30,000** | — |
| Current | | |
| Time deposits denominated in RMB | **213,800** | 119,200 |
| | **243,800** | 119,200 |

The balances represented time deposits with period ranging from 7 days to 3 years, with the annual interest rates from 1.05% to 3.30%.

## 27 CASH AND CASH EQUIVALENTS

| | As at December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Cash at bank and on hand | | |
| — denominated in RMB | **776,223** | 476,325 |
| — denominated in USD | **119** | 245 |
| — denominated in HKD | **387,606** | 288 |
| | **1,163,948** | 476,858 |

The effective interest rates on the Group's bank deposits as December 31, 2022 and 2023 were ranging from 0.01% to 0.30%.

Cash and cash equivalents of the Group were determined as follows:

| | As at December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Cash at bank and on hand | **1,163,948** | 476,858 |
| Less: Restricted cash | **(168,980)** | (81,820) |
| | **994,968** | 395,038 |

## 27 CASH AND CASH EQUIVALENTS (CONTINUED)

Restricted cash of the Group comprised of the following:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Guarantee deposits for bank notes | **168,980** | 81,820 |

## 28 TRADE AND NOTES AND OTHER PAYABLES

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Trade payables | **445,558** | 588,356 |
| Notes payable | **895,700** | 907,478 |
| Other tax payables | **61,577** | 37,756 |
| Payable for land and equipment | **32,942** | 43,460 |
| Deposits | **12,270** | 8,339 |
| Accrued expenses | **38,776** | 40,845 |
| Accrued payroll | **63,275** | 61,426 |
| Unfulfilled government grants (Note 31) | **—** | 14,214 |
| Others | **2,795** | 2,772 |
| | **1,552,893** | 1,704,646 |

The ageing analysis of trade payables based on invoice date as at December 31, 2022 and 2023 are as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Less than 1 year | **430,663** | 577,359 |
| Between 1 and 2 years | **6,121** | 5,300 |
| Between 2 and 3 years | **3,175** | 2,541 |
| Over 3 years | **5,599** | 3,156 |
| | **445,558** | 588,356 |

As at December 31, 2022 and 2023, the fair value of trade and notes and other payables approximate their carrying amounts.

## 28 TRADE AND NOTES AND OTHER PAYABLES (CONTINUED)

As at December 31, 2022 and 2023, the carrying amounts of trade and notes and other payables are denominated in RMB, USD and HKD.

## 29 CONTRACT LIABILITIES

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Advance from distributors for sales of goods | **82,710** | 96,384 |

### (a) Revenue recognized in relation to contract liabilities

The following table shows how much of the revenue recognized in the current reporting period relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Revenue recognized that was included in the contract liability balance at the beginning of the year: sales of goods | **96,384** | 82,888 |

## 30 PROVISIONS

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Non-current | | |
| Warranty costs | **3,395** | 2,432 |
| Current | | |
| Warranty costs | **6,306** | 4,518 |
| Provisions for litigation | **254** | 58 |
| | **6,560** | 4,576 |

## 31 DEFERRED INCOME

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Government grants | **21,058** | 14,558 |

Notes:

(a) Deferred income represents government grants relating to assets and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(b) The Group's subsidiary, Guangxi Luyuan, received the government grant of RMB14,214,000 in 2020 from the government of Guigang City, Guangxi province, the PRC for the land and plant invested by the Group. In December 2022, the government modified the preconditions of this government grant pursuant to which the government grant subjected to approval from the government upon receiving application from the Group. By the end of 2022, the Group did not yet submit the application to the government and had not received reply from the government, thus the preconditions had not been met. As a result, the Group reclassified the cash received of RMB14,214,000 for this government grant to other payables (Note 28) as at December 31, 2022. During the year ended December 31, 2023, Guangxi Luyuan has submitted applications for all the above government grants to the local government and the applications have been officially approved by the local government, thus the Group has recognized the government grant of RMB14,214,000 as other income (Note 6).

(c) The amount of amortization charged in other income was shown as follow:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Amortization charged in other income (included in Note 6) | **1,899** | 709 |

## 32 BORROWINGS

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Borrowings included in non-current liabilities: | | |
| — Bank loans-secured (a) | **435,119** | 375,424 |
| — Bank loans-unsecured | **48,800** | 50,000 |
| Less: Current portion of long-term borrowings | | |
| — Bank loans-secured (a) | **(5,400)** | (54,500) |
| — Bank loans-unsecured | **(1,200)** | (1,200) |
| **Total non-current borrowings** | **477,319** | 369,724 |
| Borrowings included in current liabilities: | | |
| — Bank loans-secured (a) | **10,427** | 3,132 |
| — Bank loans-unsecured | **30,000** | 104,000 |
| — Other borrowings (c) | **119,000** | 124,030 |
| Add: Current portion of long-term borrowings | | |
| — Banks loans-secured (a) | **5,400** | 54,500 |
| — Bank loans-unsecured | **1,200** | 1,200 |
| **Total current borrowings** | **166,027** | 286,862 |
| **Total borrowings** | **643,346** | 656,586 |

Notes:

(a) As at December 31, 2023, certain of the Group's bank loans are secured by mortgages over the Group's property, plant and equipment (Note 14), right-of-use assets (Note 15), the Group's equity interests in Guangxi Luyuan and certain patents of the Group. As at December 31, 2022, certain of the Group's bank loans are secured by mortgages over the Group's property, plant and equipment (Note 14), right-of-use assets (Note 15), the Group's equity interests in Guangxi Luyuan and trade receivables of a subsidiary of the Group.

(b) All the borrowings as at December 31, 2022 and 2023 are denominated in RMB.

(c) The balances of other borrowings represented the borrowings from discount of the bank notes of the Group.

## 32 BORROWINGS (CONTINUED)

The maturity of non-current borrowings at the reporting dates is as follows:

| | As at December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Between 1 and 2 years | **362,319** | 116,124 |
| Between 2 and 3 years | **115,000** | 207,600 |
| Between 3 and 5 years | **—** | 46,000 |
| | **477,319** | 369,724 |

The weighted average effective interest rates as at December 31, 2022 and 2023 were as follows:

| | As at December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Bank borrowings | **3.67%** | 3.55% |
| Other borrowings | **1.41%** | 1.68% |

## 33 SHARE CAPITAL AND SHARE PREMIUM

Upon completion of the global offering, the Company issued 106,667,000 new shares at par value of USD0.0001 each for cash consideration of HKD7.37 for each, and raised gross proceeds of HKD786,136,000 (equivalent to RMB721,216,000). The respective share capital amount was approximately RMB76,000 and share premium arising from the issuance was approximately RMB688,664,000, net of the share issuance costs of RMB32,476,000. The share issuance costs paid mainly include share underwriting commissions, lawyers' fees, reporting accountant's fee and other related costs, which were incremental costs directly attributable to the issuance of the new shares and were treated as a deduction against the share premium arising from the issuance.

Pursuant to the written resolutions of the shareholders of the Company passed on August 21, 2023, conditional on the share premium account of the Company being credited as a result of the global offering, the Directors of the Company were authorized to allot and issue a total of 288,000,000 shares credited as fully paid at par to the holders of shares on the register of members of the Company on the date of the passing of the resolution in proportion to their respective shareholdings by way of capitalization of the sum of USD28,800 (equivalent to RMB207,000) standing to the credit of the share premium account of the Company, and the shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares ("**Capitalization Issue**").

## 33 SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)

### Issued share capital and share premium

| | Number of issued shares | Share capital USD | Share capital RMB'000 | Share premium RMB'000 |
|---|---|---|---|---|
| As at February 18, 2009 (date of incorporation) | 1 | 0.0001 | 6 | — |
| As at January 1, 2022 and December 31, 2022 | 32,000,000 | 32,000 | 22 | — |
| Issuance of shares for the global offering | 106,667,000 | 106,667 | 76 | 688,664 |
| Capitalization Issue | 288,000,000 | 288,000 | 207 | (207) |
| As at December 31, 2023 | 426,667,000 | 426,667 | 305 | 688,457 |

## 34 SHARE-BASED PAYMENTS

Pursuant to a resolution of the Board of directors of the Company passed on July 20, 2023, 16,736,000 share options were granted to certain eligible participants of the Group under the Pre-IPO Share Scheme with an exercise price of RMB0. Under the Pre-IPO Share Scheme, eligible participants are granted options which only vest if certain performance standards are met. Options are granted under the Pre-IPO Share Scheme for no consideration and carry no dividend or voting rights.

The Pre-IPO Share Scheme is administrated by the Trusty Company, which is consolidated by the Group (Note 11 (xii) and Note 21 (d)). When the shares are granted but not vested, they are recognized as treasury shares of the Group. When the options are exercised, the Trusty Company transfers the appropriate amount of shares to the eligible participants.

Each option gives the holder the right to subscribe for one ordinary share of the Company at RMB0 each.

## 34 SHARE-BASED PAYMENTS (CONTINUED)

(a) The term and conditions of the grants are as follows:

| Grant date | Expiry date | Number of Instruments | Vesting conditions |
|---|---|---|---|
| July 20, 2023 | July 20, 2033 | 16,736,000 | I. 10% on July 20, 2024<br>20% on July 20, 2025<br>30% on July 20, 2026<br>40% on July 20, 2027<br>II. The individual performance rating with A/B/C can be exercised 100% and rating with D can not be exercised |

(b) The number and weighted average exercise prices of share options are as follows:

| | Exercise price | Number of options |
|---|---|---|
| Outstanding at the beginning of the year | — | — |
| Exercised during the year | — | — |
| Forfeited during the year | — | — |
| Granted during the year | RMB0 | 16,736,000 |
| Outstanding at the end of the year | RMB0 | 16,736,000 |
| Vested and exercisable at the end of the year | RMB0 | — |

(c) The estimate of the fair value of the share options granted is measured by an independent valuer based on income approach with key assumptions set out as below on the basis of allocation and analysis comparable companies, together with evidence of public financial information.

| | Share options |
|---|---|
| Expected volatility | 59.97% |
| Option life | 10 years |
| Expected dividends | — |
| Weighted average cost of capital | 14.0% |
| Lack of marketability discount | 5.0% |
| Risk-free interest rate (based on HKMA Hong Kong Exchange Fund Notes) | 3.69% |

## 35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Net cash generated from operations:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Profit before income tax | **151,140** | 122,248 |
| Adjustments for: | | |
| — Impairment losses on financial assets | **908** | 1,650 |
| — Gains on disposals of associates (Note 7) | **—** | (6,840) |
| — Gains on disposals of a subsidiary (Note 7) | **—** | (27) |
| — Depreciation and amortization (Note 8) | **91,726** | 75,411 |
| — Amortization of government grant related to assets (Note 31 (c)) | **(1,899)** | (709) |
| — Share of results of associates (Note 18) | **(73)** | (201) |
| — Finance (income)/costs — net (Note 10) | **(10,677)** | 3,735 |
| — Losses/(gains) on disposals of property, plant and equipment and right-of-use assets (Note 7) | **209** | (1,706) |
| — Interest income from related parties and third parties | **—** | (31) |
| — Interest income from time deposits (Note 6) | **(2,351)** | (2,399) |
| — Exchange gains (Note 7) | **(815)** | (1,121) |
| — Fair value gains from FVTPL (Note 7) | **(15,585)** | (19,588) |
| — Share-based payment expenses (Note 34) | **17,965** | — |
| Changes in working capital | | |
| — Trade and notes receivables | **80,378** | (149,049) |
| — Other receivables and prepayments | **(103,290)** | 78,641 |
| — Inventories | **191,644** | (57,601) |
| — Restricted cash | **(87,160)** | (49,205) |
| — Trade and notes payables | **(154,576)** | 433,179 |
| — Contract liabilities | **(13,674)** | 13,496 |
| — Other payables | **22,362** | 26,782 |
| — Debt instruments at FVOCI | **64,451** | 24,459 |
| Net cash generated from operations | **230,683** | 491,124 |

## 35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (b) Liabilities arising from financing activities

This section sets out an analysis of the movements for each of the periods presented.

| | As at December 31, 2023 RMB'000 | As at December 31, 2022 RMB'000 |
|---|---|---|
| Cash and cash equivalents | **994,968** | 395,038 |
| Borrowings | **(643,346)** | (656,586) |
| Lease liabilities | **(7,369)** | (5,108) |
| Net cash/(debt) | **344,253** | (266,656) |

### (c) Net debt reconciliation

**Liabilities from financing activities**

| | Borrowings RMB'000 | Loan from a related party RMB'000 | Lease liabilities RMB'000 | Cash and cash equivalents RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Balance as at January 1, 2022 | (666,051) | (3,282) | (2,588) | 222,012 | (449,909) |
| Net cash flows | 34,091 | 3,338 | 2,935 | 170,932 | 211,296 |
| New leases | — | — | (5,365) | — | (5,365) |
| Foreign exchange adjustments | — | — | — | 2,094 | 2,094 |
| Interest expense | (24,626) | (56) | (90) | — | (24,772) |
| Balance as at December 31, 2022 | (656,586) | — | (5,108) | 395,038 | (266,656) |
| **Balance as at January 1, 2023** | **(656,586)** | **—** | **(5,108)** | **395,038** | **(266,656)** |
| Net cash flows | **34,969** | **—** | **3,561** | **604,559** | **643,089** |
| New leases | **—** | **—** | **(5,567)** | **—** | **(5,567)** |
| Foreign exchange adjustments | **—** | **—** | **—** | **(4,629)** | **(4,629)** |
| Interest expense | **(21,729)** | **—** | **(255)** | **—** | **(21,984)** |
| Balance as at December 31, 2023 | **(643,346)** | **—** | **(7,369)** | **994,968** | **344,253** |

## 35 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (d) Non-cash investing and financing activities

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Loans to a related party settled by fixed assets (Note 24(c) & Note 38(c)) | **11,000** | — |

## 36 COMMITMENTS

### (a) Property development expenditure commitments

Property development expenditure committed at each balance sheet date but not yet incurred is as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Contracted but not provided for | **16,884** | 26,380 |

### (b) Non-cancellable lease

At the balance sheet dates, lease commitments for the Group for leases not yet commenced or short-term leases and low-value leases are as follows:

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Within 1 year | **726** | 1,937 |

## 37 CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as of December 31, 2022 and 2023.

# 38 RELATED PARTY TRANSACTIONS

## (a) Name and relationship with related parties

| Name | Relationship with the Group |
|---|---|
| Mr. Ni Jie | Controlling Shareholder, Chairman of the Board of directors |
| Ms. Hu Jihong | Executive Director, Controlling Shareholder and spouse of Mr. Ni Jie |
| Ms. Ni Boyuan | Senior management, daughter of Mr. Ni Jie and Ms. Hu Jihong |
| Jinhua Luchi (Note 18) | Associate |
| Jinhua Luyuan Electric Vehicle Co., Ltd. | Controlled by Mr. Ni Jie |
| Linyi Luyuan | (Note) |
| Jinhua Baili Network Technology Co., Ltd. | Controlled by Ms. Ni Boyuan |
| Fengxian Wanrun Vehicle Industry Co., Ltd. ("**Fengxian Wanrun**") | Controlled by Mr. Zeng Shenghong and Mr. Chen Jianpu, deregistered in January 2023 |
| Fujian Yizhou Electric Vehicle Co., Ltd. | In which Mr. Chen Guosheng serve as an executive until February 2022 |
| Jinhua Hongzi | Controlled by Ms. Ni Boyuan until October 2022 and in which Mr. Chen Jianpu served as a supervisor until February 2023 |
| Jinhua Xuli Shock Absorber Co., Ltd. | In which Mr. Chen Jianpu served as a supervisor until October 2022 |
| Mr. Chen Guosheng | Executive Director, chief financial officer and a joint company secretary |
| Mr. Chen Jianpu | Senior management of subsidiaries |
| Mr. Zeng Shenghong | Senior management of subsidiaries |

Note: Linyi Luyuan was controlled by Ms. Hu Jihong from May 2016 to June 2022 with 70% equity interests. Ms. Hu Jihong disposed 63.33% equity interests in Linyi Luyuan to Hongyang (Shanghai) Project Management Center in June 2022. Since then, Ms. Hu Jihong did not control Linyi Luyuan but still holds 6.67% equity interests.

## 38 RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with related parties

The Group has the following related party transactions:

#### (i) Purchase of raw materials and services

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Jinhua Luchi | **2,843** | 2,043 |
| Fengxian Wanrun | **—** | 37 |
| Jinhua Xuli Shock Absorber Co., Ltd. | **N/A** | 4,901 |
| | **2,843** | 6,981 |

#### (ii) Revenue from selling products and services

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Jinhua Baili Network Technology Co., Ltd. | **—** | 459 |
| Fujian Yizhou Electric Vehicle Co., Ltd. | **N/A** | 4,398 |
| Jinhua Hongzi (Note 23(b)) | **N/A** | 16,337 |
| Jinhua Luyuan Electric Vehicle Co., Ltd. | **—** | 780 |
| | **—** | 21,974 |

#### (iii) Repayment of loans by a related party

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Linyi Luyuan (Note 24(c)) | **11,000** | 47,500 |

#### (iv) Repayment of loans to a related party

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Mr. Ni Jie | **—** | 3,395 |

## 38 RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with related parties (Continued)

#### (v) Interest expense to a related party

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Mr. Ni Jie | **—** | 56 |

### (c) Due from related parties

#### (i) Prepayments to related parties — trade

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Jinhua Luchi | **—** | 532 |

#### (ii) Other receivables

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| — Non-trade | | |
| Linyi Luyuan (Note 24(c)) | **—** | 11,000 |

As at December 31, 2022, the principal amount of the loan to Linyi Luyuan was RMB11,000,000, with an impairment of RMB4,688,000. Linyi Luyuan settled the amount with its pledged assets and other assets with the Group in March 2023.

#### (iii) Lease receivables — trade

| | As at December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Jinhua Hongzi (Note 23(b)) | **N/A** | 19,417 |

As at December 31, 2022, the book balance of the lease receivables from Jinhua Hongzi was RMB19,417,000, with an impairment of RMB498,000. Jinhua Hongzi was no longer a related party of the Group since February 2023.

## 38 RELATED PARTY TRANSACTIONS (CONTINUED)

### (d) Key management compensation

Key management includes Directors (executive and non-executive), chief financial officer, vice presidents and secretary of the Board of directors. The compensation paid or payable to key management for employee services is shown below:

| | Year ended December 31, | |
|---|---|---|
| | **2023** | 2022 |
| | **RMB'000** | RMB'000 |
| Salaries and other short-term employee benefits | **6,724** | 6,367 |
| Retirement benefit scheme contribution | **87** | 86 |
| Share-based payment expenses (Note 34) | **4,685** | — |
| | **11,496** | 6,453 |

## 39 DIVIDENDS

No dividend has been paid or declared by the Company during the years ended December 31, 2022 and 2023.

## 40 SUBSEQUENT EVENTS

In January 2024, the Board of directors has resolved to establish a trust with a professional trustee (the "**Trustee**") for the Post-IPO Share Scheme and approve a share purchase plan, according to which the Company will, subject to and in accordance with the rules of the Post-IPO Share Scheme, instruct and procure the Trustee to purchase existing shares on-market for an aggregate consideration of not exceeding HKD100 million over the one-year period from April 12, 2024 to April 11, 2025. The shares so purchased will be held on trust and used as awards for the eligible participants under the Post-IPO Share Scheme. As of the date of approval of the financial statements, the Trustee does not hold any shares pertaining to the Post-IPO Share Scheme.

In February 2024, Chongqing Luyuan has acquired state-owned construction land use rights for a parcel of land in Dazu District, Chongqing City, PRC for construction of a factory.

## 41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

### (a) Balance sheet of the Company

| | Note | As at December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Interests in subsidiaries | 41(b) | **471,954** | 154,862 |
| | | **471,954** | 154,862 |
| **Current assets** | | | |
| Other receivables | | **525** | 5,500 |
| Cash and cash equivalents | | **387,532** | — |
| | | **388,057** | 5,500 |
| **Total assets** | | **860,011** | 160,362 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 33 | **305** | 22 |
| Share premium | 33 | **688,457** | — |
| Other reserves | 41(c) | **139,794** | 131,135 |
| Retained earnings | 41(c) | **18,534** | 22,811 |
| **Total equity** | | **847,090** | 153,968 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Other payables | | **12,921** | 6,394 |
| **Total liabilities** | | **12,921** | 6,394 |
| **Total equity and liabilities** | | **860,011** | 160,362 |

The balance sheet of the Company was approved for issue by the Board of directors on March 28, 2024 and was signed on its behalf by:

**Ms. Hu Jihong**
*Director*

**Mr. Chen Guosheng**
*Director*

# 41 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

## (b) Interests in subsidiaries

| | As at December 31, 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Amounts due from a subsidiary (Note) | **8,983** | 8,983 |
| Interests in subsidiaries | **462,971** | 145,879 |
| | **471,954** | 154,862 |

Note: These amounts due from a subsidiary represent equity funding by the Company to its subsidiary, Luyuan BVI and are measured in accordance with the Company's accounting policy for investments in subsidiaries. They are unsecured and non-interest bearing.

## (c) Other reserves and retained earnings

| | Other reserves | | | | | | |
|---|---|---|---|---|---|---|---|
| | Foreign currency translation RMB'000 | Share-based payment reserves RMB'000 (Note 34) | Treasury shares RMB'000 (Note 21(d)) | Others RMB'000 (Note 21(c)) | Sub-total RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
| **Balance at January 1, 2022** | (1,170) | – | – | 131,541 | 130,371 | 24,207 | 154,578 |
| Total loss | – | – | – | – | – | (1,396) | (1,396) |
| Currency translation differences | 764 | – | – | – | 764 | – | 764 |
| **Balance at December 31, 2022** | (406) | – | – | 131,541 | 131,135 | 22,811 | 153,946 |
| **Balance at December 31, 2022** | **(406)** | **–** | **–** | **131,541** | **131,135** | **22,811** | **153,946** |
| Total loss | **–** | **–** | **–** | **–** | **–** | **(4,277)** | **(4,277)** |
| Currency translation differences | **(9,306)** | **–** | **–** | **–** | **(9,306)** | **–** | **(9,306)** |
| Share-based payments (Note 34) | **–** | **17,965** | **–** | **–** | **17,965** | **–** | **17,965** |
| Acquisition of shares for Pre-IPO Share Scheme | **–** | **–** | **12** | **(12)** | **–** | **–** | **–** |
| Balance at December 31, 2023 | **(9,712)** | **17,965** | **12** | **131,529** | **139,794** | **18,534** | **158,328** |

LUYUAN

绿源

綠源集團控股（開曼）有限公司*

Luyuan Group Holding (Cayman) Limited