中國地熱能產業發展集團有限公司

CHINA GEOTHERMAL INDUSTRY DEVELOPMENT GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

TECHNOLOGY AND RESOURCES LINKS

Annual Report 2021

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This report will remain on the GEM website with the domain name of www.hkgem.com on the "Latest Company Announcement" page for at least 7 days from the date of publication and on the website of China Geothermal Industry Development Group Limited at www.cgsenergy.com.hk.

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Corporate Information

BOARD OF DIRECTORS

Executive directors

Xu Shengheng (Chairman)
Xue Jiangyun (Chief Executive Officer)
Pan Ya (Chief Financial Officer)
Wang Yan
Chan Wai Kay Katherine (Deputy Chairman)
Wang Manquan (First Vice President)
Dai Qi

Non-executive directors

Yang Wei
Liu Ening
Zhang Yiying

Independent non-executive directors

Wu Desheng
Wu Qiang
Jia Wenzeng
Guo Qingui
Guan Chenghua

REGISTERED OFFICE

P.O. Box 31119
Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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62-63 Connaught Road Central
Central
Hong Kong

AUTHORISED REPRESENTATIVES

Xu Shengheng
Wong Lai Yuk

COMPLIANCE OFFICER

Xu Shengheng

COMPANY SECRETARY

Wong Lai Yuk

AUDIT COMMITTEE

Jia Wenzeng *(Chairman)*
Wu Desheng
Wu Qiang
Guo Qingui
Guan Chenghua

REMUNERATION COMMITTEE

Wu Desheng *(Chairman)*
Wang Yan *(Deputy Chairman)*
Xu Shengheng *(Deputy Chairman)*
Jia Wenzeng
Wu Qiang
Guo Qingui
Guan Chenghua

NOMINATION COMMITTEE

Xu Shengheng *(Chairman)*
Wang Yan *(Deputy Chairman)*
Jia Wenzeng
Wu Desheng
Wu Qiang
Guo Qingui
Guan Chenghua

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

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

STOCK CODE

8128

COMPANY WEBSITE

www.cgsenergy.com.hk

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Geothermal Industry Development Group Ltd. (the "Company"), I would like to report to the shareholders the audited final results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2021 (the "Year").

The Group's revenue for the Year amounted to approximately HK$176,835,000, a decrease of approximately 23.4% as compared to the same period in 2020. The Group recorded a net loss of approximately HK$102,327,000 for the Year, which was reduced by approximately 58% as compared to the loss in 2020.

The main reasons for the decrease of the Company's loss in 2021 are summarized as follows:

1. The Group has conscientiously implemented measures of epidemic prevention, safety assurance, stable operation and employment retention during the Year.

2. The Group has continuously strengthened the internal management and carried out stringent costs control, including (i) actively disposed of assets to fully repay the bank loan of RMB400 million which effectively reducing the financial cost of the Company; (ii) the Board clearly required the management to strictly implement the management principle of "no investment, no advance, no arrears" in respect of funding used for engineering projects; (iii) tried utmost to clear the arrears and recovered the outstanding amounts.

3. The Group is strictly abide by the laws and regulations where the company is located.

Looking forward to year 2022, on top of the past foundation, the Board has put forward the goal of "Restarting the Business and Striving Ahead in 2022" and has rolled out the following work:

1. Implementing better troops and simpler administration; staff quality is over quantity and can work at multi-tasking with specialization, rational pay according to work.

2. Reduction of directors' emoluments in order to sharing weal and woe and help the Company to restart the business and overcome its difficulties.

3. To unify the basic salary standards and refine the performance assessment so as to pursuing fairness and justice to the greatest extent in a fully open manner.

4. To strictly grasp the budget work, continuously clear up arrears and recover the receivables.

5. To carry out all-round work with the market as core and to strive the accomplishment of the goals of Year 2022 as set by the Board.

Combined with the principal businesses of the Company, we will continue to pay attention to urban ecological governance, deeply participate in the construction and operation of urban heating and cooling, improve the supporting facilities of clean energy, properly carry out the work in relation to carbon neutrality and carbon emission reduction, implement the practical work by adopting the concept of "Green water and green mountains are invaluable assets".

With more than 20 years of experience accumulated by Ever Source Science & Technology Development Group Co., Limited ("HYY Group"), a subsidiary of the Company, for the application of scientific technology in utilization of shallow geothermal energy for buildings' heating and cooling and relying on the Company's unique and original heating technology with shallow geothermal energy, we will go all out to seize the incredible opportunities of this era so as to creating higher value for the shareholders, employees and customers of the Company. I would like to take this opportunity to thank all the staff and Directors for their contributions and efforts to the development of the Group during the difficult time in the past year, and sincerely thank all customers, business partners and shareholders for their trust and support to the Group.

Xu Shengheng
Chairman

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

Income Allocation

	2021		2020	
	HK$'000	*%*	*HK$'000*	*%*
1. Shallow geothermal energy utilisation system				
Including: Planning and Design	**12**	**–**	122	–
Supply of renewable energy	**6,673**	**4**	3,741	2
Engineering construction	**114,576**	**65**	142,202	62
Operation and maintenance	**31,567**	**18**	25,963	10
Intelligent manufacturing	**–**	**–**	2,804	1
2. Air conditioning/shallow geothermal heat pump	**15,177**	**8**	47,897	21
3. Property investment and development	**8,830**	**5**	8,133	4
Total revenue	**176,835**	**100**	230,862	100

	2021	2020
	HK$'000	*HK$'000*
Revenue	**176,835**	230,862
Gross profit	**31,240**	46,134
Loss before tax	**(100,904)**	(240,248)
Loss for the year	**(102,327)**	(243,440)
Research and development costs (included in the administrative expenses)	**4,874**	5,562
Impairment losses on trade and bills receivables, net	**38,943**	15,388
Impairment loss recognised in respect of prepayments, other receivables and other assets, net	**2,976**	10,384
Impairment losses on uncertainty in respect of collectability of contract assets, net	**20,796**	8,958

As at 31 December 2021 & 2020

	2021	2020
	HK$'000	*HK$'000*
Current assets	**977,383**	1,083,854
Total assets	**1,565,632**	1,720,561
Net current liabilities	**(13,060)**	(22,599)
Total equity	**428,180**	477,174

FINANCIAL REVIEW

For the year ended 31 December 2021, the loss of the Group amounted to approximately HK$102,327,000 and revenue amounted to HK$176,835,000 as compared with the loss of the Group amounted to HK$243,440,000 and revenue amounted to approximately HK$230,862,000 for the year ended 31 December 2020. For more detailed information, please refer to the consolidated financial statements for the year ended 31 December 2021 and 2020.

OPERATIONAL RESULTS

Total revenue from operations for the year ended 31 December 2021 was approximately HK$176,835,000 as compared with HK$230,862,000 for the year ended 31 December 2020, representing a decrease of approximately 23.4%. The decrease in revenue was mainly attributable to the contract signed for the engineering projects this year and the projects under construction carried over during the same period decreased causing the decrease in the revenue from alternative energy engineering projects, and on the other hand, the significant decrease in the sales of heat pump products as compared with the same period last year. During the year ended 31 December 2021, the Group recorded a net loss of approximately HK$102,327,000 (including impairment losses on trade and bills receivables of approximately HK$38,943,000 and impairment losses on contract assets amounted to approximately HK$20,796,000) as compared with a net loss of approximately HK$243,440,000 for the year ended 31 December 2020.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year ended 31 December 2021 was approximately HK$31,240,000, represented the gross profit margin of 17.7% (2020: approximately HK$46,134,000, represented the gross profit margin of 20.0%). The Group's gross profit margin for the Year is basically in line with that of last year.

SELLING & DISTRIBUTION EXPENSES

Selling and distribution expenses for this year increased by approximately HK$434,000 or 6.3% as compared with that of the year ended 31 December 2020. The selling and distribution expenses increased mainly due to the increases of the travelling and agency services expenses resulted by the intensified market promotion activities taken by the Group during the Year.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to approximately HK$70,952,000 (decreased by approximately 20.8%) and HK$89,639,000 for the years ended 31 December 2021 and 2020 respectively. The decrease in administrative expenses was mainly due to the effective cost control taken by the Group through the implementation of budget control and the strengthening of salary management measures which greatly reduced the expenses such as salaries, business operation expenses, and property leasing expenses.

OTHER EXPENSES

Other expenses for the year ended 31 December 2021 amounted to approximately HK$9,566,000 (2020: HK$166,722,000). The substantial decrease in other expenses for the Year as compared to last year was mainly due to an impairment loss for properties held for sale of HK$139,009,000 was recorded in the last year.

SHARE-BASED PAYMENT EXPENSES

During the year ended 31 December 2021, the Group had not incurred any share-based payment expenses while in 2020 the share-based payment expenses amounted to approximately HK$4,620,000 which was the amortisation of relevant expenses arising from the granting of award shares to directors, officers, employees and business partners by the Group.

Management Discussion and Analysis

ORDER BOOK

As at 31 December 2021, the Group had contracts on hand of approximately HK$158,578,000 (2020: approximately HK$211,219,000).

SEGMENTAL INFORMATION

The Group's reportable and operating segment consists of shallow geothermal energy, air conditioning/shallow geothermal heat pump, property investment and development and securities investment and trading segments.

Shallow geothermal energy

The Group has always been committed to promote the development of non-combustion emerging industry of integrated heating and cooling with geothermal energy. It is the only enterprise in the country that possesses the business capabilities of design qualification, design capability, construction qualification, construction capability, operation and maintenance, main engine production and contract energy management. The Company is also the only patent holder of the original single-well circulation heat exchange energy collection technology and owns the largest number of patented technologies in the industry. Leveraging on existing resources and integrating industrial chain service capabilities, the Group features various professional sectors. Currently, the Group has formed five major segments of planning and design, supply of renewable energy, intelligent manufacturing, engineering construction and operation and maintenance.

Air conditioning/shallow geothermal heat pump

The Group continued the promotion of its air conditioning/shallow geothermal heat pump business this year and there were 2,092 sets of equipment which have been promoted through the engineering projects carried out in Pingshan County of Heibei, Jinzhou, Anxin, Ningpu County (the phase II project) and other places, and 3,000 sets of equipment which have been promoted in the form of direct sales. The Group will continuously improve the product quality and control the costs as well as improving the market competitiveness corresponding to the future market needs and changes.

Properties investment and development

The Group continues to focus on its core businesses of shallow geothermal energy utilization system and continue to provide necessary funding to support the core business. During the Year, we have been continuously looking for suitable opportunities or third parties to dispose of the assets with relatively low returns in order to improve the capital efficiency and to supplement the working capital of the Group.

Securities investment and trading

The Group invested the idle fund for trading of securities and other types of investments in order to increase the Group's income. Further information regarding the Group's operating segments may be referred to note 4 "Operating Segment Information" of this report.

FINANCIAL RESOURCES AND LIQUIDITY

Net current liabilities of the Group as at 31 December 2021 was approximately HK$13,060,000 (2020: approximately HK$22,599,000).

As at 31 December 2021, the Group had cash and cash equivalents of approximately HK$87,069,000 (2020: approximately HK$63,172,000). Cash and cash equivalents on the consolidated statement of financial position include funds available for general corporate purposes.

In view of the net current liabilities position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing certain measures. Details of which could be referred to note 2.1 of the notes to the consolidated financial statements of this annual report.

CHARGES OF GROUP ASSETS

As at 31 December 2021, the Group had no charges on assets.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

The Company's reporting currency is in Hong Kong dollars and most of the trading transactions and cost incurred by the Group are principally denominated in Hong Kong dollars and Renminbi. The Group continued to adopt a conservative treasury policy by keeping most of the bank deposits in either Hong Kong dollars or Renminbi to minimise exposure to foreign exchange risks.

As at 31 December 2021, the Group had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Group, based on total net debt (including interest-bearing bank and other borrowings, lease liabilities, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents) to the equity (representing equity attributable to owners of the parent) plus net debt of the Group, was approximately 51.2% as at 31 December 2021 (2020: 57.5%).

EMPLOYEES

As at 31 December 2021, the Group has approximately 475 employees (2020: approximately 480). The remuneration package of the employees is determined with reference to their performance, experience and their positions, duties and responsibilities in the Group.

SHARE AWARD SCHEME

On 15 January 2020, the Company has adopted a share award scheme (the "Share Award Scheme") with the objective to attract, retain and incentivize key employees, executive officers, directors and consultants of the Company and its subsidiaries to retain them for the continual operations and development of the Group. Pursuant to the Scheme Rules, the Board may, from time to time, at their absolute discretion select the eligible persons to participate in the Share Award Scheme and determine the number of shares to be awarded ("Award Shares") to the selected participants. The Board shall have the power to impose any conditions on the rights of selected participants to the Award Shares when deemed appropriate. The detailed disclosures relating to the Company's Share Award Scheme are set out in note 36 to the financial statements of the Company's annual report.

CONTINGENT LIABILITIES

As at 31 December 2021, the Company did not have any contingent liabilities not provided in the financial statements (2020: Nil).

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2021 (2020: Nil).

CAPITAL STRUCTURE

As at 31 December 2021, the authorised share capital of the Company was US$160,000,000 divided into 16,000,000,000 ordinary shares of US$0.01 each and the issued share capital was 4,526,925,163 ordinary shares of US$0.01 each.

Management Discussion and Analysis

EVENTS AFTER THE REPORTING PERIOD

In November 2021, Ever Source Investment Management Co,. Ltd. ("Ever Source Investment"), a wholly owned subsidiary of the Company, received a civil complaint from Shanghai Gangze Trading Company Limited* (上海港澤貿易有限公司) ("Shanghai Gangze") against Ever Source Investment and Beijing Rungu Investment Co., Ltd. (北京潤古投資有限公司) ("Beijing Rungu"), requesting Beijing First Intermediate People's Court to (i) order the cancellation of the Equity Transfer Agreement and the Supplemental Equity Transfer Agreement; (ii) order Ever Source Investment to return the equity transfer amount of RMB237,000,000 to Shanghai Gangze and compensate for the provisional interest loss of RMB8,217,995.83, totaling RMB245,217,995.83; (iii) order Beijing Rungu to bear joint and several liabilities for the aforementioned interest loss; and (iv) order Ever Source Investment and Beijing Rungu to bear the litigation costs, preservation fees and preservation guarantee fees for the case.

In January 2022, Ever Source Investment was notified by Beijing Life Insurance Co., Ltd. ("Beijing Life") that they received a notice of assistance in enforcement and a civil ruling issued by the Beijing First Intermediate People's Court. According to the civil ruling, the court ruled to implement the assets preservative measures applied by Shanghai Gangze (as the applicant) against Ever Source Investment (as the respondent) and Beijing Rungu (as the respondent) by freezing the bank deposits or seizure and impounding the assets with the equivalent sum that held by Ever Source Investment and Beijing Rungu respectively. The limits imposed on Ever Source Investment and Beijing Rungu are RMB245,217,995.83 and RMB8,217,995.83 respectively. In addition, according to the notice of assistance in enforcement, Beijing Life is required to assist in freezing the 4.99965% equity interest of Beijing Life held by Ever Source Investment, corresponding to the paid-up capital of RMB142,990,000, for 3 years commencing from 12 January 2022 to 11 January 2025. During the freezing period, transfer, sale and pledge of the above equity interests are prohibited without the permission of the court. At the reporting date, Ever Source Investment's bank account with Beijing Rural Commercial Bank has been frozen with the amount of RMB50,288.

The Company considered that the above court ruling has no significant adverse effect on the normal operation and financial of the Group. The Company will vigorously respond to the litigation and will make further announcement(s) to keep its shareholders and investors informed of any significant development of the litigation as and when appropriate.

CAPITAL COMMITMENT

Details of capital commitments are set out in note 42 to the financial statements of the Company's Annual Report.

FUTURE PLANS FOR SUBSTANTIAL INVESTMENTS OF CAPITAL ASSETS

The Group did not have any future plans for substantial investments of capital asset as at 31 December 2021.

MAJOR ACQUISITIONS AND DISPOSALS

On 26 March 2021, HYY Group entered into the equity transfer agreement in relation to the disposal of 100% equity interest in HYY Science and Technology Development Group Xinyi Co., Ltd.* (恒有源科技發展集團新沂有限公司), a wholly owned subsidiary of the Company, at the consideration of approximately RMB25,831,000. Details of the disposal can be referred to the announcement dated 26 March 2021 of the Company.

Save as disclosed above, there was no major acquisitions or disposal transactions during the year.

BUSINESS REVIEW AND OUTLOOK

During the period under review, the Group realized the revenue of approximately HK$176,835,000, representing a decrease of 23.4% as compared with the same period of last year. The main reasons for the decrease in revenue are as follows:

1. The revenue of alternative energy engineering projects has declined as compared with the same period of last year. The main reason for the decrease was that in order to alleviate the funding pressure, contracts for some projects that required fund advancement was not undertaken this year resulting in a decrease in the construction projects.

2. The revenue of the sale of heat pump products has decreased as compared with that of the previous year which was mainly due to the significant decrease of coal-to-electricity projects in surrounding areas, especially the coal-to-electricity projects in Hebei Province, thereby resulting in a decrease in sale of self-heating projects. In addition, the decreases of projects by one of the major customers of Hong Yuan Ground Source Heating Device Technology Co., Ltd., a subsidiary of the Group, led to a drop in the purchase of heat pump products by them during the Year, which was also one of the major factors leading to the decrease in the revenue of sale of heat pump products.

During the period under review, the Company actively responded to changes in the internal and external environment by broadening the source of income and reducing of expenditure as well as risks prevention. It has formulated the scheme of "Three Guarantees, One Promotion and Nine Determination with Full Openness" (三保一促九定全公開方案), a management system established with clear rights and responsibilities defined, and implemented comprehensive budget management and independent accounting for projects so as to avoiding the project costs exceeding budget and finally affecting profits. We also strengthened the performance assessment work in accordance with the requirements of the Board throughout the entire business operations.

In order to cope with the demand and changes of alternative energy heating, the Group has adjusted its way of thinking and strategic layout. On the one hand, we actively promote the central heating projects through various channels and different cooperation methods. On the other hand, self-heating projects are gradually extended to rural areas carrying out the coal-to-electricity transformation, such as Shanxi, Inner Mongolia and Shandong, using various business models. We actively promote the utilization of shallow geothermal energy and air source heat pumps in the industry by fanning out from point to area.

During the reporting year, the operation effect, the cooperation model and experimental results of the Group's alternative energy projects in Hunan and Chengdu were affirmed by the owners and the relevant government departments, and cooperation intentions were initially established.

In the future, the Company will strengthen its business promotion in different regions in developing the new markets, and continue to enrich and improve the core technologies that owned by the Company, such as "single well circulation" heat exchange, HYY heating device, air source heat pump, geothermal energy heat pump and the relevant industrial chain in order to provide energy supply for buildings outside the core high-density areas of the city. The Company will roll out the work by focusing on the following aspects: 1. Focusing on clean heating in northern rural areas in winter, the Company can provide clean self-heating solutions for northern rural areas in our country, particularly for the provision of heating, cooling and domestic hot water for households in buildings with an area of 50 to 2,000 square meters. 2. With the demonstration projects to further promote the marketing work along the Yangtze River. 3. Promotion of the transformation projects of traditional heating into clean heating in the Beijing-Tianjin- Hebei regions. 4. Enhancement of market efforts in the western part of China. 5. Exploring the application of heat pump technology in the industry, especially the coal mine industry (mining well), and further focusing on the cooling and heating needs of the breeding industry and special agricultural facilities (such as vinyl house), and further explore business opportunity in special industries (such as pharmaceutical plant) for its plant and workshop office with heating and cooling demand.

Based on the demonstration effect of the current demonstration projects, through the connection with China Energy Conservation and Environmental Protection Group and the local government, the Company will use an appropriate business model to collectively carry out clean energy transformation for the public construction projects (such as schools, office buildings, coal-fired boiler transformation, Five Hall One Center of Art and Recreation, etc.) for a particular region.

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Xu Shengheng ("Mr. Xu"), aged 59, has been appointed as an executive Director since 6 February 2009. Mr. Xu is the chairman of the Group, an executive Director, the chairman of nomination committee, the deputy chairman of remuneration committee, the compliance officer and an authorised representative of the Company. Mr. Xu holds the title of Senior Engineer and a doctoral degree of Geological Engineering and a Master degree of Business Administration from the International EMBA from Hong Kong University of Science and Technology (香港科技大學). Mr. Xu has long been engaged in the field of heating provision and is committed to the preferred shallow geothermal energy as an alternative energy source for northern heating. By physical change process to provide heating for buildings with heating area free of combustion and zero emissions. The original single-well circulation heat exchange of renewable geothermal energy collection technology developed by Mr. Xu has realized the industrialization development and is one of the low-temperature heat (shallow geothermal energy) collection technology of the integrated heating/cooling emerging industry of the Group. Mr. Xu is currently also a director of certain subsidiaries of the Company.

Mr. Xue Jiangyun ("Mr. Xue"), aged 51, has been appointed as an executive Director since 14 March 2022. Mr. Xue is the chief executive officer of the Group and the chairman of HYY Group, an indirect wholly-owned subsidiary of the Company. He holds a title of senior engineer. Mr. Xue graduated with a doctoral degree from the University of Science and Technology Beijing (北京科技大學) in June 1997, majoring in corrosion and protection. From July 1997, he commenced working and served as project manager of the Industrial Department in Beijing Guotou Energy Conservation Company* (北京國投節能公司), a director of Beijing Energy Conservation Information Center* (北京節能信息中心), and an assistant to general manager, deputy general manager and general manager of Beijing Hualixing Technology Development Co., Ltd.* (北京華力興科技發展有限公司). During the period from June 2014 to August 2020, he had been working in China Energy Conservation and Environmental Protection Group (中國節能環保集團有限公司) ("CECEP") (the parent company of China Energy Conservation and Environmental Protection (Hong Kong) Investment Co., Ltd., ("CECEP (HK)") a substantial shareholder of the Company) and successively served as deputy general manager and the chairman of labor union of CECEP Industrial Energy Conservation Co., Ltd.* (中節能工業節能有限公司), an executive director and deputy general manager of CECEP Building Energy Conservation Co., Ltd.* (中節能建築節能有限公司). Mr. Xue is currently also a director of certain subsidiaries of the Company.

Mr. Pan Ya ("Mr. Pan"), aged 45, has been appointed as an executive Director and the chief financial officer since 14 March 2022. Mr. Pan is a senior accountant and a Chinese certified tax agent. Mr. Pan graduated from Nanjing University of Finance & Economics (南京財經大學) (formerly known as Nanjing Economics College (南京經濟學院)) with a bachelor's degree in accounting. He commenced working from August 1999 and has been engaged in financial accounting and management work for a long time. He had been an accountant of the Welfare Enterprise Management Office of the Civil Affairs Bureau of Gulou District, Xuzhou, Jiangsu* (江蘇徐州鼓樓區民政局) and was in charge of the accounting work in Tietong Huaihai Communication Information Co., Ltd.* (鐵通淮海通信信息有限公司). He joined HYY Group in April 2004 and served as the financial director of foreign joint ventures of HYY Group, the director of the Company's financial office, the deputy chief financial officer of the Company and the chief financial officer of HYY Group. Mr. Pan is currently also a director or a supervisor of certain subsidiaries of the Company.

Ms. Chan Wai Kay Katherine ("Ms. Chan"), aged 62, has been appointed as an executive Director since 6 February 2009. Ms. Chan is the deputy chairman of the Board and executive Director of the Company. She holds a Bachelor degree of Business Administration from the University of Southern California, USA. Ms. Chan has more than 20 years of experience in financial services industry and previously held various key positions in listed companies. Ms. Chan has profound practicing knowledge in company's strategic planning and corporate management of listed companies. Ms. Chan is currently also a director of certain subsidiaries of the Company.

Ms. Wang Yan ("Ms. Wang"), aged 49, has been appointed an executive Director, the deputy chairman of nomination committee and remuneration committee of the Company since 10 August 2018. Ms. Wang acted as joint Chairman of the Board during the period from 10 August 2018 to 4 February 2021. Ms. Wang holds a bachelor's degree in accounting and a master's degree in engineering and is a senior economist. Ms. Wang began working in August 1992. From August 1992 to February 1998, she worked in China Arts and Crafts Exhibition Company. From February 1998 to July 2018, she worked in China Energy Conservation Investment Company Limited (subsequently renamed as China Energy Conservation and Environmental Protection Group, the parent company of the substantial shareholder of the Company) and served the positions of office manager, deputy director and director of the Human Resources Department and employee supervisor of its group. From November 2014 to May 2020, she was a director of CECEP Valiant Co., Ltd. (中節能萬潤股份有限公司) (a listed company in China with stock code: 002643.SZ).

Mr. Wang Manquan ("Mr. Wang"), aged 59, a senior engineer, has been appointed as an executive Director since 29 December 2016. Mr. Wang graduated from Beijing Municipal Committee of the CPC Party School (中共北京市委黨校) with a bachelor's degree in Business Management in 2007. He joined in HYY Group a subsidiary of the Company, in 2001. Previously, Mr. Wang had been the chief executive officer, the chief operating officer of the Company, the vice president of HYY Group and currently serves as the first vice president of the Company and general manager of Ever Source Science and Technology Development Group Co., Ltd. who is also in charge of safety work. Prior to joining in the Group, Mr. Wang was the head of Beijing Haidian Sijiqing Heat Exchanger Factory (北京市海淀區四季青換熱器廠). Mr. Wang has been engaged in leadership of project management for mechanical and electrical equipment installation for more than 20 years, and specializes in comprehensive application technology of geothermal energy heating system. He has extensive business management experience. Mr. Wang is currently also a director of certain subsidiaries of the Company.

Mr. Dai Qi ("Mr. Dai"), aged 39, was appointed as a non executive Director on 12 August 2013 and was redesignated to executive Director of the Company since 29 December 2016. He currently also serves as the general manager of the Integrated Business Department I. After joining the Company, he successively served as the administrative director of the Group and the vice president of HYY Group. Mr. Dai graduated from Southwest Jiaotong University (西南交通大學) with a master's degree of management. Previously, he worked at Beijing Dongcheng Branch of Shenzhen Development Bank (深圳發展銀行) as a senior account executive and held positions with Strategic Management Department of China Energy Conservation Investment Company Limited (中國節能投資公司) and Strategic Management Department of CECEP. Besides, he acted as deputy general manager of Investment and Capital Operation Department of CECEP (HK).

NON-EXECUTIVE DIRECTORS

Mr. Yang Wei ("Mr. Yang"), aged 38, has been appointed as an non-executive Director of the Company since 10 August 2018. Mr. Yang graduated from Beijing Normal University (北京師範大學) majoring in physics in 2007. He graduated from the University of Hong Kong in 2008 with a master's degree in economics, a economist. He began working in March 2009. He was the business manager of the Railway Construction Division of China Railway Materials Corporation, the secretary of the President Office of China Railway Materials Co., Ltd., (中國鐵路物資股份有限公司) and the secretary of the Office of CECEP. Since January 2015, he successively had been an assistant to the general manager , the deputy general manager of CECEP (HK). Currently, he is an executive director, the general manager of CECEP (HK) a substantial shareholder of the Company who holds 26.29% of the issued share capital of the Company, and concurrently serves as an executive director and the general manager of its associated company, China Energy Conservation Environmental Advisory Group Co., Ltd (中國節能皓信環境顧問集團有限公司).

Ms. Liu Ening ("Ms. Liu"), aged 42, has been appointed as an non-executive Director of the Company since 12 March 2021 and acted as an alternate Director to Mr. Mr. Wang Michael Zhiyu during the period from 14 November 2019 to 11 March 2021. Ms. Liu graduated from The RAFFLES-BICT International College (北京服裝學院萊佛士國際學院) in 2004 with a bachelor degree in business administration. From 2004 to 2010, she worked as an administrative manager in Beijing Shuntian Green Slope Technology Co., Ltd. (北京順天綠色邊坡科技有限公司). Since 2010, she has been the deputy manager and manager of the media operation department in Beijing Tomorrow Sunshine Advertising Co., Ltd., (北京明日陽光廣告有限公司) responsible for media promotion and operation management. Ms. Liu has extensive experience in marketing and management, and she also has extensive investment experience in the education industry and environmental protection industry.

Biography of Directors and Senior Management

Mr. Zhang Yiying ("Mr. Zhang"), aged 49, has been appointed as a non-executive Director of the Company since 16 January 2020. Mr. Zhang graduated from Capital University of Economics and Business (首都經濟貿易大學), majoring in accounting. From 1994 to 2005, Mr. Zhang worked as the manager of credit department at Beijing Branch of China Construction Bank (中國建設銀行). From 2005 to 2009, he worked as assistant to the chairman and manager of the investment department at Neo-China Land Group (Holdings) Limited (中新地產集團(控股)有限公司). From 2009 to 2019, he worked as a project manager and investment manager in Xi'an project of Longisland Investment Group (HK) Limited (長島投資集團(香港)有限公司). From 2019 till now, he has been a director and manager of Xi'an Baoshihua Regional Energy Technology Co., Limited (西安寶石花區域能源科技有限公司). Mr. Zhang has extensive experience in real estate project development and engineering, as well as extensive management and investment experience.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jia Wenzeng ("Mr. Jia"), aged 78, has been appointed as an independent non-executive Director of the Company since 25 March 2009. Mr. Jia is also the chairman of audit committee and members of nomination committee and remuneration committee. Mr. Jia had been working on financial management since 1963 with in-depth research and practice on corporate financial management. His dissertation was awarded a second prize in the National Examination Seminar for Economy Dissertation (全國經濟論文評選會) in 1992.

Mr. Wu Desheng ("Mr. Wu"), aged 82, has been appointed as an independent non-executive Director of the Company since 21 March 2012. Mr. Wu is also the chairman of remuneration committee and members of nomination committee and audit committee. Mr. Wu is the executive director of the China Committee of Heating, Ventilation and Air-Conditioning of Architectural Society of China (中國建築學會暖通空調分會), executive director of China Association of Refrigeration (中國製冷學會), honorary director of the Civil Engineering & Architectural Society of Beijing (北京土木建築學會), the Education Supervisor and Adjunct Professor of Tsinghua University (清華大學), Beijing University of Civil Engineering and Architecture (北京建築工程學院) and Xi'an Jiaotong University (西安交通大學). Mr. Wu graduated with a Bachelor's degree from the Department of Civil Engineering of Tsinghua University in 1963.

Mr. Wu Qiang ("Mr. Wu"), aged 62, has been appointed as an independent non-executive Director of the Company since 29 December 2016. Mr. Wu is also the members of remuneration committee, nomination committee and audit committee. Mr. Wu graduated from China University of Geosciences (中國地質大學), Beijing in 1991 and obtained the doctoral degree in Engineering. Mr. Wu is currently a professor of China University of Mining & Technology (中國礦業大學), Beijing and the academician of China Academy of Engineering. Mr. Wu was honored with the "Li Siguang Geological Science Award" and received many honorable titles including the leader of Chang Jiang Scholars Program of the Ministry of Education, one of ten winners of the first "Outstanding Postdoctoral Award of China", "National Outstanding Teacher" and the State-selected candidate of the first project of "Hundreds, Thousands, and Ten Thousands of Talents for the New Century" of the Ministry of Education. In addition, he is one of the recipients of special government allowance granted by the State Council. Mr. Wu is the deputy chairman of International Mine Water Association (國際礦山水協會) (IMWA), the president of national committee of IMWA China and one of the associate editor of Mine Water and the Environment, the SCI-indexed journal. He also serves as a member of China Association for Science and Technology (中國科學技術協會), a member of Commission of Technology under Former State Administration of Work Safety and the head of "Expert Panel On Hydrogeology" under the State Administration of Coal Mine Safety (國家煤礦安全監察局).

Mr. Wu has published many books and over 300 academic articles. His works were honored with three Second Class Awards of National Science and Technology Progress Award, 10 first class awards of provincial award, while nearly 50 invention patents were granted by the United States, Hong Kong and China and 27 national software copyrights were granted. He worked as the chief editor for preparation of a number of reference books, such as national technology standards and manuals. The research team under his leadership was awarded Outstanding Innovation Team of the Ministry of Education and the "Team of Safety in Mines" of China Association for Science and Technology.

Biography of Directors and Senior Management

Mr. Guo Qingui ("Mr. Guo"), aged 49, has been appointed as an independent non-executive Director of the Company since 29 December 2016. Mr. Guo is also the members of remuneration committee, nomination committee and audit committee. Mr. Guo graduated from the School of Law of Zhengzhou University. Mr. Guo obtained the Master Degree of Peking University Law School in 2005 and the Executive Master of Business Administration (EMBA) degree from Tsinghua University School of Economics and Management in 2015. He was admitted as a lawyer in China in 1995. As a practicing lawyer in China, he served in Grandall Law Firm (Beijing), Zhong Lun Law Firm (Beijing), King & Wood Mallesons in Beijing and Zhongxin Law Firm in Beijing. He currently serves as a partner and a lawyer of Beijing DeHeng Law offices. Mr. Guo has been appointed as an independent director of ChifengJilong Gold Mining Co., Ltd., an A-share listed company in China with stock code: 600988, from November 2018 and, a director of Beijing Xingyeyuan Property Management Co., Ltd., a company listed on NEEQ in China with stock code: 833925, since 1 May 2020.an independent director of CECEP Guozhen Environmental Protection Technology Co., Ltd., a company listed on the ChiNext of the Shenzhen Stock Exchange with stock code: 300388, since 1 January 2021.

Mr. Guan Chenghua ("Mr. Guan"), aged 53, has been appointed as an independent non-executive Director of the Company since 28 March 2020. Mr. Guan is also the members of remuneration committee, nomination committee and audit committee. Mr. Guan graduated from Law School of Peking University in 2005 with a doctoral degree in law and holds an EMBA degree from Cheung Kong Graduate School of Business. He is currently a professor and doctoral supervisor of The Institute of Economics and Resource Management of Beijing Normal University. He had served as teaching assistant, lecturer, associate professor and Associate Dean of School of Marxism of Peking University, senior visiting scholar at Kennedy School and Law School of Harvard University, the Dean of Innovation and Entrepreneurship College of Xihua University, the Dean of The Institute of Economics and Resource Management of Beijing Normal University, secretary of Beijing Changping District Committee of the Communist Party of China, and secretary of The Communist Youth League Beijing Municipal Committee. Mr. Guan is also currently the deputy director of The University Council of Beijing Normal University, the president of Capital Institute of Science and Technology Development Strategy, the director of United Nations Industrial Development Organization (UNIDO) Green Industry Platform (GIP) China Chapter, a committee member of Beijing Municipal Government Expert Advisory Board, the Dean of China Institute of Innovation and Development (CIID), Beijing Normal University, an independent director of Beijing Life Insurance Co., Ltd. etc. Mr. Guan has long been engaged in teaching and research at high-level universities, and has extensive local government work experience. He has also published a number of monographs covering different topics such as education and talent training, city innovation, green economy and development.

SENIOR MANAGEMENT

Mr. Sun Ji ("Mr. Sun"), aged 79, holds the title of researcher. Mr. Sun is currently the chief technology officer of the Company and the chief engineer of Ever Source Science and Technology Development Group Co., Ltd. Mr. Sun graduated from Harbin Institute of Technology with a bachelor's degree in fluid power transmission and control in September 1966. He obtained a doctorate degree from Université Pierre et Marie Curie in September 1984. From September 1966 to September 1986, he worked in Lanzhou General Machinery Factory and served as technician, technical team leader, chief designer and senior engineer. From September 1986 to April 1992, he was transferred to Lanzhou Coal Gasification Engineering Headquarters, a major national project, as deputy chief engineer. From April 1992 to December 2000, he was transferred to Lanzhou National High-tech Industrial Development Zone as chief engineer and director of entrepreneurship center.

Biography of Directors and Senior Management

Mr. Yang Mingzhong ("Mr. Yang"), aged 43, is a senior engineer (engineering design and construction), a PRC registered utility engineer (heating, ventilation and air conditioning), and a registered class A construction engineer (electrical and mechanical engineering). Mr. Yang is currently the executive vice president and the general manager of the integrated business department III of the Company, mainly responsible for engineering and operation. Mr. Yang graduated from Harbin Institute of Technology in 2001 with a bachelor's degree in Architectural Environment and Equipment Engineering. He has been engaged in HVAC mechanical and electrical design and construction management for a long time. Since January 2003, he joined Ever Source Science and Technology Development Group Co., Ltd. ("HYY Group") and successively served different positions in subsidiaries of the Group, such as the chief designer and director of Beijing Guangsha Design Office, chief engineer and general manager of Beijing Hengyouyuan Environmental System Equipment Installation Engineering Co., Ltd., general manager of Beijing Hengyouyuan Geothermal Heating and Cooling Technology Service Technology Co., Ltd.; general manager of Beijing Yuanquan Drilling Engineering Co., Ltd.; vice president of HYY Group; system design director of the Company.

Mr. Shi Yongliang ("Mr. Shi"), aged 48, senior engineer (mechanical manufacturing and processing), Mr. Shi is currently the executive vice president of the Company and the general manager of the Integrated Business Department VI of the Company, mainly responsible for the production base of heat pump product. Mr. Shi graduated from Southwest Jiaotong University with a bachelor's degree in Materials Science in 1997, and graduated from Chengdu University of Electronic Science and Technology with a bachelor's degree in business administration (postgraduate) in 2012. Since 1997, he has been working in the air-conditioning and HVAC industry. From 1997 to 2015, he worked in Sichuan Changhong Air Conditioning Co., Ltd. ("Sichuan Changhong"), successively serving as a director of the design and technology department, the chief of a heat exchanger factory, the chief of a sheet metal factory, the chief of a electric control Factory, the chief of manufacturing department and manufacturing director. Since 2011, he has been responsible for the cooperation project of heating devices between Sichuan Changhong and HYY Group. He also served as the general manager of Hongyuan Ground Energy Heat Pump Technology Co., Ltd. and also served as the deputy general manager of Hongyuan Ground Energy Heating Device Technology Co., Ltd. He joined Ever Source Science and Technology Development Group Co., Ltd. in 2016 and successively served as assistant to the president, deputy manager of the development service center, deputy chief dispatcher, manager of integrated business department VI, vice president of HYY Group, and operation and maintenance director of the Company. Since 2017, he has also served as the general manager of Hongyuan Ground Energy Heating Device Technology Co., Ltd.

Mr. He Tianyue ("Mr. He"), aged 48. Mr. He is currently the executive vice president and marketing director of the Company, mainly responsible for marketing and information work. Mr. He graduated from Beijing University of Aeronautics and Astronautics with a bachelor's degree in foreign languages in 1995. He joined Ever Source Science and Technology Development Group Co., Ltd. in 2008 and served as the leader of the information team of the customer service center, the deputy director and director of the general office of the Group, the director of the administrative center, the assistant to the president, the general manager of the business department III, the deputy general manager of the smart heating business department, the director of agency development service center, vice president of HYY Group.

Ms. Liu Baohong ("Ms. Liu"), aged 39, holds the title of engineer. Ms. Liu is currently the executive vice president of the Company and the director, manager and system director of Hongyuan Ground Energy Heating Device Technology Co., Ltd., a joint venture company. In 2006, she graduated from North China University of Technology with a bachelor's degree in Building Environment and Equipment Engineering. Ms. Liu joined Ever Source Science and Technology Development Group Co., Ltd. in 2007 and served as a designer, director of the design office and assistant to the president. Ms. Liu is engaged in the research of geothermal energy intelligent heating system, and is mainly responsible for the development, system integration, promotion and application of household heating device products.

Ms. Nie Dan ("Ms. Nie"), aged 40, a PRC lawyer. Ms. Nie is currently the executive vice president of the Company, mainly in-charge of legal affairs and human resources, as well as the companies of the Group in Hong Kong, and director of human resources. Ms. Nie holds a Bachelor of Laws from China University of Political Science and Law, a Master of Laws from City University of Hong Kong and a Master of Business Administration from Hong Kong Metropolitan University. She joined the Company in July 2011 and served as the personal assistant to the president, deputy administrative director, human resources director and deputy legal director, director of legal affairs and human resources, and assistant to the president.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in note 1 to the financial statements.

An analysis of the Group's performance for the year ended 31 December 2021 by business segments are set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2021 and the Group's financial position at that date are set out in the consolidated financial statements on pages 42 to 144.

The directors do not recommend the payment of any dividend for the year ended 31 December 2021.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2021 and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 6 to 11. A summary of the Group's performance during the year ended 31 December 2021 is provided in the "Financial Highlights" and "Five-Year Financial Summary" set out on page 6 and 145 respectively of this annual report. In addition, the financial risk management objectives and policies of the Group can be referred in note 46 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The Group's land and buildings were revalued as at 31 December 2021. The revaluation resulted in a gain over book values amounting to approximately HK$5,432,000, which has been charged directly to the asset revaluation reserve.

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

INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the end of the year. There was no change in fair value during the year. Most of these investment properties will be developed as the Group's self-built demonstration leasing project with the application of shallow geothermal energy.

PROPERTIES

Details of the major properties held by the Group as at 31 December 2021 are set out on page 146 of this annual report.

Report of the Directors

SIGNIFICANT INVESTMENTS HELD

During the year ended 31 December 2021, the Group held 4.99965% of equity interests in Beijing Life Insurance Co. Ltd., which is an equity investments designated at fair value through other comprehensive income. The size of investment as compared to the Group's total assets as at 31 December 2021 is 18.5%.

On 13 November 2020, HYY Investment Management Co., Ltd. (恒有源投資管理有限公司), an indirect wholly owned subsidiary of the Company, entered into equity transfer agreement and subsequently supplemented by a supplemental agreement to sell 4.99965% equity interests in Beijing Life Insurance Co. Ltd. for a cash consideration of RMB237,000,000. At the extraordinary general meeting held on 19 February 2021, the Shareholders of the Company passed the ordinary resolution in respect of the equity transfer agreement. Details of the disposal can be referred to the Company's circular dated 26 January 2021. As at 31 December 2021, HYY Investment has received the consideration of RMB237,000,000 and this transaction is pending for the transferee to complete the change of shareholder registration. Therefore, the equity transfer has not been completed as at the date of this report.

SHARE CAPITAL AND AWARD SHARES

As at 31 December 2021, the authorised share capital of the Company was US$160,000,000 divided into 16,000,000,000 ordinary shares of US$0.01 each and the issued share capital was 4,526,925,163 ordinary shares of US$0.01 each (the "Shares").

Details of movements in the Company's share capital and award shares during the year, together with the reasons therefore, are set out in notes 35 and 36 respectively to the financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and to the best knowledge of the directors of the Company, at least 25% of the Company's total issued share capital were held by the public as at the date of this report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2021, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities, except that the trustee of the Share Award Scheme, pursuant to the rules of the Share Award Scheme, purchased on the open market a total of 46,808,000 shares of the Company, representing approximately 1.03% of the issued share capital of the Company, at a consideration of approximately HK$3,791,000 during the year ended 31 December 2021.

CHARITY DONATIONS

During the year, the Group made charity donations of RMB13,000 (equivalents to approximately HK$15,677) (2020: RMB40,000).

OTHER RESERVES

Details of movements in the other reserves of the Company and the Group during the year are set out in note 48 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. As at 31 December 2021, the Company did not have any reserve available for distribution (2020: HK$2,744,000) after net off the accumulated losses of the Company.

ENVIRONMENTAL POLICY

We are committed to building an environmental-friendly corporation that pays close attention to conserving natural resources. The Group encourages environmental protection and promotes awareness towards environmental protection to the employees. The Group adheres to the principle of recycling and reducing so as to minimize the environmental impact from our operation. Besides, being a corporation engaging in the business of research, development and promotion of shallow geothermal energy as alternative energy to provide heating for buildings, we have installed our Ground Energy Heat Pump Environmental System and/or Ground Energy Heating Devices in most of our offices in China for providing heating and cooling which has achieved great saving in electricity and thereby reducing pollution to the environment.

The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses and enhance environmental sustainability.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licences. The Group has been setting up system and allocating resources to ensure ongoing compliance with rules and regulations. The Group has complied, to the best of our knowledge, with the Securities and Futures Ordinance (the "SFO"), the GEM Listing Rules, the applicable employment ordinance both in China and Hong Kong, the local standards and regulations for our project works as well as other relevant rules and regulations during the year.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Human resources are one of the greatest assets of the Group. The Group ensures all staff are reasonably remunerated and also continues to improve and regularly review and update its policies on remuneration and benefits, career development opportunities, training, occupational health and safety. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found during the year.

The Group values views and opinions of all customers and collects them through various means and channels including making regular visits/phone calls/holding meetings. A 24 hours service hotline is set up to timely deal with customers' enquiries and complaints so as to understand the customer needs and regularly analyze on customers' feedback. The Group also conducts comprehensive tests and checks to ensure quality products and services are offered to the customers.

The Group encompasses working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The Group has set up a qualified suppliers database registering the suppliers which are met certain performance criteria and eligibility requirements to facilitate the procurement process. The Group's requirements and standards are also well-communicated to suppliers before the commencement of a project.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 39% (2020: 43%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 16% (2020: 19%). Purchases from the Group's five largest suppliers accounted for approximately 30% (2020: 34%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 16% (2020: 24%).

Report of the Directors

To the best knowledge of the directors, neither the directors, their associates, nor any shareholders who own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and/or its five largest suppliers during the year.

DIRECTORS

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

Executive directors:
Mr. Xu Shengheng *(Chairman)*
Mr. Xue Jiangyun *(Chief Executive Officer) (Appointed on 14 March 2022)*
Mr. Pan Ya *(Chief Financial Officer) (Appointed on 14 March 2022)*
Ms. Wang Yan
Ms. Chan Wai Kay Katherine *(Deputy Chairman)*
Mr. Wang Manquan *(First Vice President)*
Mr. Dai Qi
Ms. Hao Xia *(Chief Financial Officer) (Resigned on 18 February 2022)*

Non-executive directors:
Mr. Yang Wei
Mr. Zhang Yiying
Ms. Liu Ening

Independent non-executive directors:
Mr. Wu Desheng
Mr. Wu Qiang
Mr. Jia Wenzeng
Mr. Guo Qingui
Mr. Guan Chenghua

Note: In accordance with article 84(3) and 85 of the Company's articles of association, Ms. Wang Yan, Mr. Xue Jiangyun, Mr. Panya, Mr. Wu Qiang and Mr. Guo Qingui will retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company had received confirmation of independence from each of the independent non-executive director pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers that the independent non-executive directors to be independent.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management of the Company are set out on pages 12 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in notes 8 and 43 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

PERMITTED INDEMNITY

Pursuant to the Articles of Association, subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices. Such permitted indemnity provision has been in force throughout the year. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 17.50A(1) of the GEM Listing Rules, the change in information of the Directors for the year ended 31 December 2021 is set out below:

Changes of Directors and nominations of the Company

From 4 February 2021, Mr. Xu Shengheng was elected as the chairman of the Group. In addition, Mr. Xu ceased to act as a director of Ever Source Technology Development Group Dalian Co., Ltd.* (恒有源科技發展集團大連有限公司), a subsidiary of the Company, since 3 February 2021. Since 30 April 2021, he ceased to act as a director of Beijing Haidian District Hengyuan Vocational Skills Training School* (北京海澱區恒有源職業技能培訓學校), a subsidiary of the Company. Since 22 June 2021, he ceased to act as a director of Dalian Heng Run Feng Jiaye Real Estate Development Co., Ltd.* (大連恒潤豐佳業房地產開發有限公司), a subsidiary of the Company.

From 4 February 2021, Ms. Wang Yan ceased to be the joint chairman of the Board of the Company and remained as an executive Director, deputy chairman of nomination committee and remuneration committee of the Company.

Mr. Wang Zhiyu resigned as non-executive Director of the Company with effect from 12 March 2021.

Ms. Liu Ening ceased to act as alternate Director to Mr. Wang Zhiyu and was appointed as non-executive Director of the Company with effect from 12 March 2021.

Mr. Wang Manquan and Ms. Hao Xia were appointed as director of Ever Source Technology Development Group Dalian Co., Ltd.* (恒有源科技發展集團大連有限公司), a subsidiary of the Company, since 3 February 2021.

Changes in Directors' emolument

The annual salary of Mr. Xu Shengheng, the Chairman of the Company, was decreased from HK$3,800,000 to HK$2,900,000 for the year 2021.

The annual salary of Ms. Chan Wai Kay, Katherine, the Deputy Chairman of the Company, was decreased from HK$1,920,000 to HK$1,470,000 for the year 2021.

The annual salary of Ms. Wang Yan, an executive Director of the Company, was decreased from HK$2,016,000 to HK$1,116,000 for the year 2021.

The annual salary of Mr. Wang Manquan, an executive Director of the Company, was decreased from HK$1,620,000 to HK$1,458,000 for the year 2021.

The annual salary of Ms. Hao Xia, an executive Director of the Company, was decreased from HK$1,200,000 to HK$1,080,000 for the year 2021.

The annual salary of Mr. Dai Qi, an executive Director of the Company, was decreased from HK$840,000 to HK$756,00 for the year 2021.

Each of the non-executive Directors of the Company, namely Mr. Yang Wei, Mr. Zhang Yiying and Ms. Liu Ening, is entitled to an annual directors' fee of HK$60,000 for the year 2021.

Report of the Directors

The annual directors' fee of each of the independent non-executive Directors of the Company, namely Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang, Mr. Guo Qingui and Mr. Guan Chenghua increased from HK$150,000 to HK$170,000 for the year 2021.

Save as disclosed above and elsewhere in this report, there is no other information required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules for the year ended 31 December 2021.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATION

As at 31 December 2021, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which will be 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 position which they are taken or deemed to have taken under such provisions of the SFO), or which will be required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(a) Long Positions in Shares and Underlying Shares

Name of Directors	Nature of interest	Number of Shares	Percentage of total issued Shares[1]
Mr. Xu Shengheng	Beneficial owner	715,646,600	15.83%
	Interest of spouse	982,800	
Ms. Chan Wai Kay Katherine	Beneficial owner	62,290,400	1.69%
	Interest of spouse	14,103,600	
Mr. Wang Manquan	Beneficial owner	716,800	0.02%
Ms. Liu Ening	Beneficial owner	250,000,000	5.52%
Mr. Zhang Yiying	Beneficial owner	2,504,000	5.58%
	Interest of Controlled Corporation[2]	250,000,000	
Mr. Jia Wenzeng	Beneficial owner	2,000,000	0.04%
Mr. Wu Desheng	Beneficial owner	2,000,000	0.04%
Mr. Wu Qiang	Beneficial owner	2,000,000	0.04%
Mr. Guo Qingui	Beneficial owner	2,000,000	0.04%
Mr. Guan Chenghua	Beneficial owner	2,000,000	0.04%

Notes:

(1) The calculation is based on (i) the aggregate number of Shares of the Company ("Shares") and, if any, underlying Shares pursuant to share awards; and (ii) the total number of 4,526,925,163 Shares in issue as at 31 December 2021.

(2) Universal Zone Limited, which is wholly owned by Mr. Zhang Yiying, holds 250,000,000 Shares

Save as disclosed above, as at 31 December 2021, none of the directors and chief executive of the Company or their associates had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short position which they were taken or deemed to have taken under such provisions of the SFO), or which were required to be entered into the register kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in notes 36 to the financial statements in respect of the share award scheme, at no time during the year were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement that would enable the directors to acquire such rights in any other corporate body.

SHARE AWARD SCHEME

The detailed disclosures relating to the Company's share award scheme are set out in note 36 to the financial statements.

EQUITY-LINKED AGREEMENTS

Save for the share award scheme of the Company as disclosed in the sections headed "Share Award Scheme", no equity-linked agreements were entered into by the Group, or existed during the year.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the directors of the Company, as at 31 December 2021, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein, were as follows:

Long Positions in shares and equity derivatives

Name	Nature of interest	Number of Shares	Percentage of total issued Shares(1)
CECEP (HK)(2)	Beneficial interest	1,190,000,000	26.29%
CECEP(2)	Interest of controlled corporation	1,190,000,000	26.29%
Ms. Luk Hoi Man	Beneficial interest Interest of spouse	982,800 715,646,600	15.83%
Universal Zone Limited	Beneficial owner	250,000,000	5.52%
Mr. Wang Zhiyu	Interest of spouse	250,000,000	5.52%

Notes:

1. The calculation is based on (i) the aggregate number of Shares and, if any, underlying Shares pursuant to share awards; and (ii) the total number of 4,526,925,163 Shares in issue as at 31 December 2021.

2. CECEP (HK), a wholly-owned subsidiary of CECEP, holds 1,190,000,000 Shares.

Save as disclosed above, as at 31 December 2021, the directors of the Company were not aware of any other person (other than directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

Report of the Directors

CONNECTED TRANSACTIONS

(I) Continuing Connected Transactions not exempt from Independent Shareholders' Approval Requirements

The continuing connected transactions not exempt from independent shareholders' approval requirements under Rule 20.34 of the GEM Listing Rules undertaken by the Group during the period under review are set out below:

On 24 May 2019, the Company entered into the sale and purchase framework agreement with CECEP, a substantial shareholder of the Company, whereby CECEP and its subsidiaries agreed to purchase and the Company and its subsidiaries agreed to supply of the products and provision of services. The term of the sale and purchase framework agreement is from the date of the Independent Shareholders' approval of the sale and purchase framework agreement to 31 December 2021.

The above continuing connected transaction in relation to the sale and purchase framework agreement was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 16 September 2019.

The annual caps for the supply of the Products and provision of Services by the Company and its subsidiaries under the Sale and Purchase Framework Agreement for the period from 1 January 2021 to 31 December 2021 (the "Period") was RMB60,000,000. No transaction was recorded for the supply of the Products and provision of Services by the Company and its subsidiaries to CECEP and its subsidiaries for the Period.

(II) Continuing Connected Transactions exempt from Independent Shareholders' Approval Requirements

The continuing connected transactions exempt from independent shareholders' approval requirements under Rule 20.99 of the GEM Listing Rules undertaken by the Group during the period under review are set out below:

On 28 January 2021, HYY Group, a wholly owned subsidiary of the Company, entered into the sale and purchase framework agreement with Sichuan Changhong Air Conditioning Co., Ltd. (四川長虹空調有限公司), ("Sichuan Changhong") which held 49% equity interests of Hong Yuan Ground Source Heating Device Technology Co., Ltd. (宏源地能熱寶技術有限公司), a subsidiary of the Company, therefore Sichuan Changhong is a connected person of the Company at the subsidiary level (as defined under the GEM Listing Rules). As the Board has approved the transaction contemplated under the sale and purchase framework agreement; and the independent non-executive Directors have confirmed that the terms of the transaction contemplated under the sale and purchase framework agreement are fair and reasonable, and that such transaction is entered into on normal commercial terms, and is in the interests of the Company and its Shareholders as a whole. As such, the transaction contemplated under the sale and purchase framework agreement is subject to the reporting and announcement requirements, but is exempted from the circular, independent financial advice and Shareholders' approval requirements under Rule 20.99 of the GEM Listing Rules.

Pursuant to the sale and purchase framework agreement, HYY Group and its associates intended to provide installation engineering services for air-conditioning home appliance products ("HYY Services") to Sichuan Changhong and its associates, and Sichuan Changhong and its associates intended to sell air-conditioning home appliance products ("Changhong Products") to HYY Group and its associates, for a term commencing from 28 January 2021, being the date of the sale and purchase framework agreement, to 31 December 2023.

The annual caps for the HYY Services provided by HYY Group or its associates to Sichuan Changhong or its associates under the sale and purchase framework agreement for the period from 28 January 2021 to 31 December 2021 (the "Period") was RMB15,000,000. No transaction was recorded for HYY Group Services provided by HYY Group or its associates to Sichuan Changhong or its associates for the Period.

The annual caps for the Changhong Products sold by Sichuan Changhong or its associates to HYY Group or its associates under the sale and purchase framework agreement for the period from 28 January 2021 to 31 December 2021 (the "Period") was RMB120,000,000. The actual amount recorded for Changhong Products sold by Sichuan Changhong or its associates to HYY Group or its associates for the Period was approximately RMB24,463,000.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the HKICPA. The auditor has issued an unqualified letter containing their findings and conclusions accordingly. The letter stated that (i) the above continuing connected transactions have been approved by the Board; (ii) the transactions involving the provision of goods or services by the Group were, in all material respects, in accordance with the pricing policies of the Group; (iii) the transactions were entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and (iv) the above continuing connected transactions did not exceed their respective annual caps as set out in the Company's circular dated 21 August 2019 and the Company's announcement dated 28 January 2021.

The independent non-executive Directors have confirmed the above continuing connected transactions in accordance with Rule 20.53 of the GEM Listing Rules that the continuing connected transactions entered into by the Group were in the ordinary and usual course of its business, on normal commercial terms or better, and in accordance with the terms of the relevant agreements governing such transactions that are fair and reasonable and in the interests of the shareholders as a whole.

Report of the Directors

(III) Connected Transactions not exempt from Independent Shareholders' Approval Requirements

In September 2016, an entrusted loan of RMB400,000,000 was borrowed from a subsidiary of China Energy Conservation and Environmental Protection Group ("CECEP") through a bank and guaranteed by CECEP. The loan was due on 13 September 2019, and due to the tight cash flows of the Group, CECEP repaid the loan on behalf of the Group by granting an unsecured shareholder's loan of RMB400,000,000 to Ever Source Science & Technology Development Group Co, Ltd ("HYY") on 12 September 2019, which is repayable on demand.

In order to refinance this loan, HYY applied for a facility in the principal amount of RMB400,000,000 from a bank. Pursuant to the requirements of the bank, CECEP should provide a guarantee in favour of the bank to secure the repayment obligations of HYY for the facility. Therefore, on 16 December 2019, CECEP and HYY entered into the guarantee service agreement, pursuant to which, CECEP agreed to provide the guarantee service to the Group for securing a loan of RMB400,000,000. The Group should pay to CECEP the guarantee fee at 1% per annum on any outstanding principal amount of the facility under the facility agreement. As requested by CECEP, on 16 December 2019, HYY entered into the counter guarantee agreement in favour of CECEP against all amounts which may be incurred by CECEP under the guarantee. HYY shall grant the counter guarantee to CECEP for the principal amount of the facility together with interests, penalty and other related fees and expenses which may be payable by CECEP under the guarantee to the bank. The receiving of financial assistance by way of the guarantee from CECEP, the entering into of the guarantee service agreement and the counter guarantee agreement constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules, and the relevant percentage ratio(s) of the Company exceeds 5% and therefore are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. At the extraordinary general meeting held on 13 March 2020, the independent shareholders of the Company passed the ordinary resolution in respect of the guarantee service agreement and the counter guarantee agreement and the transactions contemplated thereunder.

For the year ended 31 December 2021, the Company has repaid the bank facility of RMB400,000,000, provision of RMB83,000 for the guarantee fee payable to CECEP under the guarantee service agreement for the year was made. Besides, the pledged assets under the counter guarantee agreement were discharged.

Details of other significant related party transactions of the Group during the year ended 31 December 2021 are set out in note 43 to the financial statements.

REMUNERATION POLICY

The remuneration policy of the Group for rewarding its employees is based on their performance, qualifications and competence.

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

The Company has adopted a share award scheme as an incentive to the Directors and eligible employees in 2020. Details of the share award scheme are set out in note 36 to the financial statements of this report.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests, with the Group.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") established with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal controls systems of the Group and to provide advice to the directors of the Company.

The Audit Committee comprises five independent non-executive directors of the Company, namely Mr. Jia Wenzeng (the chairman of the Audit Committee), Mr. Wu Desheng, Mr. Wu Qiang, Mr. Guo Qingui and Mr. Guan Chenghua. The Audit Committee has reviewed the Group's audited final results for the year ended 31 December 2021 and has provided advice and comments thereon. The Audit Committee held five meetings during the year.

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 28 to 36.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company prepared in accordance with Appendix 20 of the GEM Listing Rules will be published by end of May this year.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has not adopted its own code of conduct regarding securities transactions by directors, but having made specific enquiry of all directors, the Company reported that during the year, the directors have complied with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules and its code of conduct regarding securities transactions by directors.

AUDITOR

There were no other changes in auditor of the Company during the past three years. The consolidated financial statements of the Company for the year ended 31 December 2021 were audited by Ernst & Young. A resolution will be proposed at the forthcoming AGM to authorise the Board to appoint the auditor of the Company and fix their remuneration.

For and on behalf of the Board

Xu Shengheng
Chairman & Executive Director

Hong Kong, 29 March 2022

Corporate Governance Report

The board of Directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2021.

The Company is committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2021 (the "Reporting Period"). This report describes the corporate governance standards and practices used by the Company to direct and manage its business affairs. It also explains the applications of the Code and deviations, if any.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has not adopted its own code of conduct regarding securities transactions by directors, but having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the Reporting Period.

BOARD OF DIRECTORS

As at 31 December 2021, the Board comprised of fourteen Directors including six executive Directors, namely Mr. Xu Shengheng (Chairman of the Group), Ms. Chan Wai Kay Katherine, Ms. Wang Yan, Mr. Wang Manquan, Ms. Hao Xia and Mr. Dai Qi, three non-executive Directors namely Mr. Yang Wei , Mr. Zhang Yiying and Ms. Liu Ening and five independent non-executive Directors, namely, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang, Mr. Guo Qingui and Mr. Guan Chenghua. Subsequently, Ms. Hao Xia has resigned as executive Director on 18 February 2022.

The composition of the Board ensures a balance of expertise and experience appropriate to the requirements of the business of the Company and to the exercising of independent opinion. At least one of the independent non-executive Directors has appropriate professional qualifications, or accounting or related financial management expertise.

The Board of Directors is responsible for the overall strategic development of the Group. It also monitors the financial performance, internal control and risk management of the Group's business operations. Executive Directors are responsible for running the Group and executing the strategies adopted by the Board. The Board delegates day-to-day activities to the management with department heads responsible for different aspects of the business. The Non-Executive Directors serve the relevant function of bringing independent judgement on the development, performance and risk management of the Group through their contributions in board meetings. They are also serving on Audit Committee, Remuneration Committee and Nomination Committee.

According to the Articles of Associations of the Company, at each annual general meeting, one third of the Directors for the time being, or their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation, provided that every Director shall be subject to retirement by rotation at least once every three years.

To the knowledge of the Directors, the Board members have no financial, business, family or other material/relevant relationships with each other.

The Board normally has four scheduled meetings a year at quarterly interval and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. During the year ended 31 December 2021, a total of ten Board meetings were held.

Board minutes are kept by the secretary of the Company (the "Secretary") and are open for inspection by the Directors of the Company. Each Director of the Company is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Secretary, and has the liberty to seek external professional advice if required.

During the year ended 31 December 2021, ten Board meetings were held. Details of the attendance of the Directors at the meetings of the Board and its respective committees, as well as the general meetings were as follows:

Name of Director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors					
Mr. Xu Shengheng	10/10	N/A	3/3	2/2	2/2
Ms. Wang Yan	9/10	N/A	3/3	2/2	2/2
Ms. Chan Wai Kay Katherine	10/10	N/A	N/A	N/A	2/2
Mr. Wang Manquan	10/10	N/A	N/A	N/A	2/2
Ms. Hao Xia	10/10	N/A	N/A	N/A	2/2
Mr. Dai Qi	7/10	N/A	N/A	N/A	1/2
Non-executive Directors					
Mr. Yang Wei	10/10	N/A	N/A	N/A	1/2
Mr. Wang Michael Zhiyu *(Resigned on 12 March 2021)*	1/2	N/A	N/A	N/A	0/1
Ms. Liu Ening	5/8	N/A	N/A	N/A	0/1
Mr. Zhang Yiying	8/10	N/A	N/A	N/A	0/2
Independent non-executive Directors					
Mr. Jia Wenzeng	10/10	5/5	3/3	2/2	0/2
Mr. Wu Desheng	9/10	4/5	3/3	2/2	0/2
Mr. Wu Qiang	5/10	3/5	2/3	2/2	0/2
Mr. Guo Qingui	9/10	5/5	3/3	2/2	0/2
Mr. Guan Chenghua	9/10	4/5	3/3	2/2	0/2

Code provision C.1.6 of the Code requires that independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders.

Code provision F.2.2 of the Code requires that the chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend.

Due to their engagement in other business, Mr. Yang Wei, Mr. Wang Michael Zhiyu and Mr. Zhang Yiying, the non-executive Directors, as well as Mr. Jia Wenzeng (being the chairman of the remuneration committee of the Company), Mr. Wu Desheng, Mr. Wu Qiang (being the chairman of the remuneration committee of the Company), Mr. Guo Qingui and Mr. Guan Chenghua, the independent non-executive Directors, did not attend the extraordinary general meeting held on 19 February 2021. Besides, Mr. Zhang Yiying and Ms. Liu Ening, the non-executive Directors, as well as Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang, Mr. Guo Qingui and Mr. Guan Chenghua, the independent non-executive Directors, did not attend the annual general meeting held on 8 June 2021

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The role of chairman was jointly performed by Mr. Xu Shengheng and Ms. Wang Yan during the period between 1 January 2021 and 4 February 2021. Since Ms. Wang Yan ceased to be the joint chairman of the Board of the Company from 4 February 2021, Mr. Xu Shengheng acted as the Chairman of the Group. Mr. Xue Jiangyun has been the chief executive officer during the year.

NON-EXECUTIVE DIRECTORS

Under the Code Provision A.4.1, all the non-executive Directors should be appointed for a specific term, subject to re-election. Each of Mr. Yang Wei, Mr. Zhang Yiying and Ms. Liu Ening, the non-executive Directors, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang, Mr. Guo Qingui and Mr. Guan Chenghua the independent non-executive Directors, have been appointed for a specific term of two years, subject to re-election at least once every three years.

Corporate Governance Report

The Company has received, from each of the independent non-executive Directors, an annual confirmation of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

DIRECTORS' AND OFFICERS' LIABILITIES

The Company has arranged for appropriate insurance covering the liabilities of the Directors that may arise out the corporate activities, which has been complied with Code Provision C.1.8. The insurance coverage will be reviewed on an annual basis.

CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors, including independent non-executive Directors, should keep abreast of their collective responsibilities as Directors and of the businesses and activities of the Group. The Group also provides briefings and other training to develop and refresh the Directors' knowledge and skills, and updates all Directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and to enhance their awareness of good corporate governance practices. During the year ended 31 December 2021, the Directors have confirmed that they have received the training as follows:

Name of Directors	Reading journals, written training materials and/or updates	Viewing the director training webcast published by Stock Exchange	Receiving internal training
Mr. Xu Shengheng	✓	✓	✓
Ms. Chan Wai Kay Katherine	✓	✓	✓
Ms. Wang Yan	✓	✓	✓
Mr. Wang Manquan	✓	✓	✓
Ms. Hao Xia	✓	✓	✓
Mr. Dai Qi	✓	✓	✓
Mr. Yang Wei	✓	✓	✓
Mr. Zhang Yiying	✓	✓	✓
Ms. Liu Ening	✓	✓	✓
Mr. Jia Wenzeng	✓	✓	✓
Mr. Wu Desheng	✓	✓	✓
Mr. Wu Qiang	✓	✓	✓
Mr. Guo Qingui	✓	✓	✓
Mr. Guan Chenghua	✓	✓	✓

REMUNERATION COMMITTEE

A remuneration committee was formed in May 2006 with specific written terms of reference which deal clearly with its authority and duties in accordance with the requirements of the Code. The remuneration committee is responsible for reviewing and developing the remuneration polices of the Directors and senior management. The remuneration committee in designing the remuneration packages would consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management. The remuneration committee presently consists of five independent non-executive Directors, namely Mr. Wu Desheng (chairman of remuneration committee), Mr. Jia Wenzeng, Mr. Wu Qiang, Mr. Guo Qingui and Mr. Guan Chenghua and two executive Directors, namely Mr. Xu Shengheng and Ms. Wang Yan, both of them are the deputy chairman of remuneration committee. During the Reporting Period, three meetings were held by the remuneration committee, among other things, to review the remuneration of the Directors for year 2022 and the remuneration and assessment management measures for key staff. In consideration of the directors' remuneration, no director is involved in deciding his/her own remuneration.

NOMINATION COMMITTEE

A nomination committee was formed by the Company on 21 March 2012 with specific written terms of reference which has been adopted by the Company are consistent with the requirements of the Code. The primary duties of the nomination committee are, among others, to review the structure, size and composition (including the skills, knowledge and experience) and to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. The nomination committee presently consists of two executive Directors, namely Mr. Xu Shengheng (the chairman of nomination committee) and Ms. Wang Yan (the deputy chairman of nomination committee) and five independent non-executive Directors, namely Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang, Mr. Guo Qingui and Mr. Guan Chenghua. During the Reporting Period, the nomination committee held two meetings, among other things, to consider and recommend the appointment of Directors in consideration of the board diversity policy of the Company, the composition of the Board and the background of the candidate and the nomination of senior management.

BOARD DIVERSITY POLICY

The Board adopted the board diversity policy ("Board Diversity Policy") in accordance with the requirement set out in the Code. Such policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy. The Nomination Committee will continue to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

As at 31 December 2021, the Board comprised of fourteen Directors including six executive Directors, three non-executive Directors and five independent non-executive Directors, amongst of them, four members are female and six members are male. As at 31 December 2021, the total workforce of the Group is 475, amongst of them, 88 staff are female and 387 staff are male. The Group has also taken and will continue to take steps to promote gender diversity at all levels of the Group.

Besides, the Directors obtained bachelor degrees or postgraduate qualification in various disciplines, including engineering, legal, business administration, economics, accounting and finance. They also have a balanced mix of professional experience and industry background in buildings heating with shallow geothermal energy, geological, project engineering, credit control, corporate governance, corporate finance and accounting.

NOMINATION POLICY

The Company adopted a nomination policy, which establishes written guidelines to the Nomination Committee to identify candidates suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorships with reference to the formulated criteria. The Board is ultimately responsible for selection and appointment of new Directors.

Nomination Process

– identify candidates for directorship, including recommendations from Board members, management, shareholders and third party agency;

– candidates for directorship will be selected in consideration of the Board Diversity Policy as well as the selection criteria;

– candidates for directorship will be evaluated on the criteria through review of resume, personal interview, background checks and third party reference checks;

– hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment;

– submit to the Board of its recommendations on candidates.

Corporate Governance Report

Selection Criteria

The Nomination Committee shall consider a variety of factors in assessing the suitability of a proposed candidate for directorship, including but not limited to the following selection criteria:

– character and integrity;

– qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;

– commitment for responsibilities of the Board in respect of available time and relevant interest;

– potential contributions that the candidate can bring to the Board;

– independence with reference to the independence guidelines set out in Rules 5.05(2) and 5.09 of the GEM Listing Rules if the candidate is nominated as an independent non-executive Director.

AUDITOR'S REMUNERATION

The audit works of the Group for the year ended 31 December 2021 were performed by Ernst & Young. The total fee paid/payable in respect of the statutory audit and non-audit services provided by external auditor during the Reporting Period are set out below:

Services rendered	**Fee paid/payable for the year ended 31 December 2021** *HK$'000*
Audit services	2,844
Non-audit services	–
Total audit fee payable for the Reporting Period	2.844

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are, among others, to review and supervise the financial reporting processes, risk management and internal control systems of the Group, to make recommendations to the Board in relation to the appointment, re-appointment and removal of external auditor and to provide advice and comments to the Board accordingly.

The audit committee currently consists of five independent non-executive Directors, namely Mr. Jia Wenzeng (chairman of the audit committee), Mr. Wu Desheng, Mr. Wu Qiang, Mr. Guo Qingui and Mr. Guan Chenghua.

During the Reporting Period, five meetings were held to consider and review, among others, the following matters:

1) the quarterly, interim and annual reports of the Company before submission to the Board and the impact of the changes in accounting policies and practices and compliance of the relevant accounting standards, the GEM Listing Rules;

2) the re-appointment of external auditor and the proposed audit fee;

3) meeting with auditors to discuss the audit plan and scope of work before commencement of the audit work;

4) review and discuss with auditors regarding the audited results and audit findings, including the deficiencies in internal control that are identified during the audit; and

5) review the risk management and internal control systems of the Group.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

The Directors acknowledged their responsibility for the preparation of the financial statements, which give a true and fair view of the financial position, financial performance and cash flows of the Group. The Auditor are responsible to form an independent opinion based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

COMPANY SECRETARY

Ms. Wong Lai Yuk, the company secretary of the Group, is an associate member of The Hong Kong Institute of Chartered Secretaries in Hong Kong. Ms. Wong joined the Group in December 2001. During the Reporting Period, Ms. Wong (who is an employee of the Company) has duly complied with the relevant professional training requirement under Rule 5.15 of the GEM Listing Rules.

CORPORATE GOVERNANCE FUNCTIONS

The Board as a whole is responsible for performing the corporate governance duties including:

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

(b) to review and monitor the training and continuous professional development of Directors and senior management;

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

(d) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

INTERNAL CONTROLS AND RISK MANAGEMENT

It is the responsibility of the Board to ensure that a sound and effective risk management and internal control system is in place for safeguarding the interests of the Shareholders and oversee management in design, implementation and monitoring of the risk management and internal control systems. Such systems are designed to manage the Group's risk rather than to eliminate the risk of failure to achieve business objectives of the Group, and can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

The Group's risk management and internal control structure include a management structure with clearly defined lines of responsibility and limits of authority. The Group has comprehensive policies and guidelines in governing and controlling the daily operational and business activities and transactions. The Group adopted a three-line risk management approach to identify, analyze, assess, mitigate and handle risks. The first line of defence is that our department staff/frontline employees who must understand that their roles and responsibilities to identify, assess and monitor risks associated with their scope of works and transactions and should strictly follow internal control measures in their day-to-day transactions. The Group will enhance the compliance of internal control procedures by providing training and guidelines to department staff/frontline employees. The second line of defence is the Group's management that provides independent oversight of the internal control and risk management activities of the first line of defence. They are mainly responsible for ensuring and maintaining effective internal controls and for executing risk and control procedures, guiding the development and implementation of internal policies and procedures and ensuring that activities are consistent with goals and objectives of the Group and to better monitor and minimize the risks. As the final line of defence, the audit committee of the Company, with the advices and opinions from the external professional party (such as the external auditor) and review by the internal audit function, ensures that the first and second lines of defence are effective.

During the Reporting Period, the Company has put continuous effort in enhancing the control and management system and reinforcing the supervision efforts, so as to ensure that the Company can withstand changes in its operations and other external influences on its financial and operation.

Corporate Governance Report

PRINCIPAL RISKS FACING BY THE GROUP

The Company has identified the principal risks relating to the market, operation and capital, and formulated the following corresponding measures to mitigate the risks:

1) Market risk:

   i) The impact of mainland real estate market in view of the macroeconomic situation, which may lead to a decrease in the completion of new buildings and affect the promotion of the Company's projects, thereby casting uncertainty to the Company's business.

   ii) Fewer projects of the Company due to fierce market competition resulted in a significant drop in revenue during the year.

   Corresponding measures:

   i) Strengthening and improving the business promotion model in different regions, motivating the enthusiasm of relevant personnel and agents so as to developing new markets;

   ii) Enriching and improving the core technologies and industrial chains of "single well circulation" heat exchange, HYY heating device, air source heat pump and geothermal energy heat pump that owned by the Company to provide energy supply for buildings outside the core high-density areas of the city.

2) Operational risk:

   i) The business department lacks awareness of cost and budget, resulting in a discrepancy between actual performance and budget. During the period, it was not able to effectively monitor and take appropriate measures for the deviation of the budget.

   ii) The COVID-19 epidemic still affects the normal operation of the Company.

   Corresponding measures:

   i) Strengthening the accounting of project cost, funding budget and accounting management system and setting up a comprehensive budget management committee to implement related work;

   ii) Strengthening epidemic prevention and control.

3) Capital risk

   i) More difficulties is encountered in collection of the payment for previous projects. On the one hand, the risk of bad debts increases, and on the other hand, high amount of funding are occupied.

   ii) The Company's working capital is tight.

   Corresponding measures:

   i) Strengthening the collection of project receivables by multiple channels and various measures;

   ii) Planning to conditionally dispose of the asset that cannot bring significant cashflow in the near future so as to improve the efficiency of capital;

   iii) Selectively committing the investment-construction-operation projects and EPC projectswith high return in order to ensure continuous and stable cash flow in the future.

Major works performed during the reporting period to enhance the internal control and risk management are as follow:

- The Board has reviewed, analyzed and compared the overall results performance to the budget quarterly with specific financial indicators in order to monitor the execution of the business plan in terms of revenue, cost, profit, funding etc. and ensure the efficient use of business resources. A budget management committee was set up mainly comprised of financial personnel and senior management as well as some independent non-executive directors to closely review and monitor the business performance in accordance with the budgets.

- Account receivables team continuously follow up long overdue payments and regular meetings were held to co-ordinate the different departments including sales persons to collect payments.

- The management has further revised the internal control procedures in response to the daily operational needs and strengthened the financial reporting procedures.

- The Group has emphasized the importance of work safety. Procedures for carrying site work is in place and proper training on work safety has been provided to workers and site inspection has been made regularly.

- The internal audit team of the Group provided reports directly to the Audit Committee on a regular basis, for their work performed, audit results and observations of internal control and risk management systems.

- Appropriate action was taken in response to the deficiencies in internal control as well as business and financial risks as identified and recommendations made by Directors.

- In response to the outbreak of COVID-19 pandemic, the Company has implemented strict prevention and control measures to ensure the safety of the employees and business partners of the Company and in compliance with the national requirement and relevant rules that are in force. The Company has also formulated measures to ensure normal business operation can be maintained, particularly guidance for the site staff and for the staff who need to travel etc.

The management of the Group believes that risk management and internal control systems were effective and adequate and provided such confirmation to the audit committee of the Company for the year. Furthermore, the audit committee has also independently reviewed the risk management and internal control systems of the Group and provided comments thereon.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has maintained internal guidelines for ensuring that inside information is disseminated to the public in an equal and timely manner in accordance with the applicable laws and regulations. Senior executives of the legal, corporate affairs and financial control functions of the Group are delegated with responsibilities to control and monitor the proper procedures to be observed on the disclosure of inside information. Access to inside information is at all times confined to relevant senior executives and confined on "need-to-know" basis. Blackout period and securities dealing restrictions notification will be sent to the relevant directors. Reminders will be given to employees possessing of inside information for preservation of confidentiality and restriction of dealing of securities of the Company. Relevant personnel and other professional parties involved are reminded to preserve confidentiality of the inside information until it is publicly disclosed.

DIVIDEND POLICY

It is the policy of the Board, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst preserving the Company's liquidity to capture future growth opportunities. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall consider the following factors before declaring or recommending dividends:

(a) the Company's actual and expected financial performance;

(b) retained earnings and distributable reserves of the Company and each of the members of the Group;

(c) the Group's expected working capital requirements, capital expenditure requirements and future expansion plans;

(d) the Group's liquidity position;

(e) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and

(f) other factors that the Board may consider relevant.

Corporate Governance Report

The payment of dividend by the Company is also subject to any restrictions under the Cayman Islands laws and the Company's articles of association.

The Board will continually review the Dividend Policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition of the Group and other factors affecting the Group.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The disclosure of the Group's information in a reasonable and time manner by the Board is to facilitate the shareholders as well as the investors to have better understanding in relation to the business performance, operations and strategies of the Group. Through our website at www.cgsenergy.com.hk which allow the Company's potential and existing investors as well as the public to assess and acquire the up-to-date company and financial information.

Shareholders are provided with contact details of the Company, such as fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means. The contact details of the Company are provided in the annual report and the Company's website.

The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. Board members and appropriate senior staff of the Group are available at the meetings to answer any questions raised by shareholders.

PROCEDURES FOR SHAREHOLDERS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. Besides, pursuant to the Articles of Association, any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address:	8/F., Chung Hing Commercial Building, 62-63 Connaught Road Central, Central, Hong Kong
Fax:	852-37539833
E-mail:	info@cgsenergy.com.hk

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

CONSTITUTIONAL DOCUMENTS

During the Reporting Period, there were no changes in any of the Company's constitutional documents.

Ernst & Young
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To the shareholders of
China Geothermal Industry Development Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Geothermal Industry Development Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 144, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on shallow geothermal energy contracts	
The Group recognises revenue from shallow geothermal energy contracts over time, using an input method in which revenue is recognised based on the proportion of actual costs incurred relative to the estimated total costs in fulfilling the relevant performance obligations. The input method involves the use of management's significant judgements and estimates, including estimates of total contract revenues, total contract costs, remaining completion costs to be incurred and contract risks. In addition, revenue, cost of sales and gross profit realised on such contracts can vary from the Group's original estimates because of changes in conditions. The significant accounting judgements and estimates and disclosures of the revenue recognition on shallow geothermal energy contracts are included in notes 3 and 5 to the consolidated financial statements.	We obtained material shallow geothermal energy contracts to review the key contract terms. We assessed the contract costs incurred by sample testing supporting documents, such as payment vouchers, supporting suppliers' invoices and contracts, and performing cut-off testing procedures. We assessed the reliability of estimates made by management in the determination of estimated total contract costs by reviewing the preparation, examination and modification process, sample testing key cost elements to material contracts, reviewing the modification of material contracts for any update on estimated total contract costs and the accuracy of prior year's budgets. We re-calculated the performance progress, based on accumulative actual costs incurred relative to the estimated total contract costs and the revenues recognised on a sampling basis. In addition, we performed analytical review procedures on the gross margins of major contracts of the Group.
Impairment of trade receivables and contract assets	
As at 31 December 2021, the Group had trade receivables and contract assets of HK$145,985,000 and HK$116,168,000, respectively. The impairment allowance of trade receivables and contract assets for expected credit losses was recognised based on management's assessment, which involved the use of significant judgements and accounting estimates including current situations of the customers, historical payment records, existence of disputes and future economic conditions. The significant accounting judgements and estimates and disclosures of the impairment of trade receivables and contract assets are included in notes 3, 24 and 23 to the consolidated financial statements.	We assessed management's accounting estimates relevant to the impairment allowance of trade receivables and contract assets for expected credit losses by discussing with management the application of the simplified approach in calculating expected credit losses, evaluating customers' financial position, especially for those with significant overdue balances and checking public available information, assessing the grouping of various customer segments and the historical observed loss rates, and checking the historical and post year end payment records. In addition, we assessed the adequacy of the disclosures on the trade receivables and contract assets in the consolidated financial statements.

KEY AUDIT MATTERS *(Continued)*

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Fair values of leasehold land and buildings</td></tr>
<tr><td>As at 31 December 2021, the Group had significant amounts of leasehold land and buildings that were measured at fair value using significant unobservable inputs (Level 3 in the fair value hierarchy). Management engaged an independent external valuer with relevant qualifications to perform the valuation of such properties.

The valuation depended on a range of estimates and assumptions, such as the analysis of the economic environment and future trend of the regions where the leasehold land and buildings were located, anticipated rentals in the future and the discount rates. The changes in estimates and assumptions would result in changes in the fair values of the leasehold land and buildings.

The significant accounting judgements and estimates and further details about the fair values of leasehold land and buildings are included in notes 3 and 13 to the consolidated financial statements.</td><td>We assessed the objectivity, independence and competence of the independent external valuer engaged by management. We reviewed and assessed the valuation method, assumptions as well as the key valuation inputs applied, such as the lease term, current average rentals, anticipated rentals in the future, lease area and the discount rates, with the assistance from our internal valuation specialists.

Our procedures included, among others, discussions with management and the external valuer about anticipated rentals in the future, checking input data against the current signed rental contracts, and historical and market data and benchmarking the discount rates to companies in similar industries.

We further reviewed the presentation and disclosures in the consolidated financial statements regarding the fair values of leasehold land and buildings.</td></tr>
</table>

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

- 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 Yee Chung Man.

Ernst & Young
Certified Public Accountants

Hong Kong
29 March 2022

Consolidated Statement of Profit or Loss

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
REVENUE	5	176,835	230,862
Cost of sales		(145,595)	(184,728)
Gross profit		31,240	46,134
Other income and gains	5	19,915	78,992
Selling and distribution expenses		(7,277)	(6,843)
Administrative expenses		(70,952)	(89,639)
Impairment losses on trade and bills receivables, net	6	(38,943)	(15,388)
Impairment losses on prepayments, other receivables and other assets, net	6	(2,976)	(10,384)
Impairment losses on contract assets, net	6	(20,796)	(8,958)
Finance costs	7	(6,284)	(24,343)
Fair value changes on investment properties	14	–	(32,570)
Other expenses		(9,566)	(166,722)
Share of profits and losses of:			
A joint venture		(231)	–
Associates		4,966	(5,907)
Share-based payment expenses	36	–	(4,620)
LOSS BEFORE TAX	6	(100,904)	(240,248)
Income tax expense	10	(1,423)	(3,192)
LOSS FOR THE YEAR		(102,327)	(243,440)
Attributable to:			
Owners of the parent		(97,329)	(242,399)
Non-controlling interests		(4,998)	(1,041)
		(102,327)	(243,440)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted (expressed in HK cents)		(2.20)	(5.46)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2021

	Note	2021 HK$'000	2020 HK$'000
LOSS FOR THE YEAR		**(102,327)**	(243,440)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
Exchange differences on translation of foreign operations		**15,242**	26,842
Share of other comprehensive income of a joint venture		**26**	–
Share of other comprehensive income of associates		**1,496**	3,037
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**16,764**	29,879
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:			
Gains/(loss) on property revaluation	*13*	**5,432**	(3,316)
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**46,379**	44,590
Income tax effect		**(11,550)**	(11,588)
		34,829	33,002
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**40,261**	29,686
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**57,025**	59,565
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(45,302)**	(183,875)
Attributable to:			
Owners of the parent		**(43,258)**	(184,582)
Non-controlling interests		**(2,044)**	707
		(45,302)	(183,875)

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**201,052**	213,359
Investment properties	14	**138,699**	134,743
Right-of-use assets	15(a)	**178**	1,050
Deposits paid for acquisitions of land use rights	16	**–**	17,823
Other intangible assets	17	**–**	293
Investment in a joint venture	18	**1,254**	–
Investments in associates	19	**55,495**	49,547
Equity investments designated at fair value through other comprehensive income	20	**64,703**	60,577
Contract assets	23	**20,713**	20,213
Trade receivables	24	**106,155**	139,102
Total non-current assets		**588,249**	636,707
CURRENT ASSETS			
Inventories	21	**16,935**	24,733
Properties held for sale	22	**335,656**	342,652
Trade and bills receivables	24	**39,830**	58,743
Prepayments, other receivables and other assets	25	**108,868**	225,075
Contract assets	23	**95,455**	122,504
Amounts due from related companies	26	**567**	551
Equity investments designated at fair value through other comprehensive income	20	**289,873**	238,831
Financial assets at fair value through profit or loss	28	**41**	34
Restricted cash	29	**2,391**	7,326
Time deposits	29	**698**	233
Cash and cash equivalents	29	**87,069**	63,172
Total current assets		**977,383**	1,083,854
CURRENT LIABILITIES			
Trade and bills payables	30	**246,441**	279,912
Other payables and accruals	31	**460,166**	430,934
Contract liabilities	23	**46,759**	51,225
Amounts due to associates	27	**15,584**	17,891
Amounts due to a joint venture	27	**702**	–
Amounts due to related companies	26	**31,334**	30,341
Interest-bearing bank borrowings	32	**–**	100,998
Lease liabilities	15(b)	**5,929**	5,889
Tax payable		**183,528**	189,263
Total current liabilities		**990,443**	1,106,453
NET CURRENT LIABILITIES		**(13,060)**	(22,599)
TOTAL ASSETS LESS CURRENT LIABILITIES		**575,189**	614,108

Consolidated Statement of Financial Position

31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**575,189**	614,108
NON-CURRENT LIABILITIES			
Lease liabilities	*15(b)*	**86,736**	89,590
Deferred income	*33*	**9,785**	9,506
Deferred tax liabilities	*34*	**50,488**	37,838
Total non-current liabilities		**147,009**	136,934
Net assets		**428,180**	477,174
EQUITY			
Equity attributable to owners of the parent			
Share capital	*35*	**353,043**	353,043
Shares held for Share Award Scheme	*36*	**(8,169)**	(7,676)
Other reserves	*37*	**57,120**	103,061
		401,994	448,428
Non-controlling interests		**26,186**	28,746
Total equity		**428,180**	477,174

Wang Manquan
Director

Pan Ya
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

		Attributable to owners of the parent													
	Notes	Share capital HK$'000	Shares held for Share Award Scheme HK$'000	Share premium HK$'000	Statutory reserve HK$'000	Asset revaluation reserve HK$'000	Contributed surplus HK$'000	Special reserve HK$'000	Capital reserve HK$'000	Share option reserve/ share award reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2020		353,043	–	904,845	2,935	42,616	154,381	7,553	17,876	49,117	(42,747)	(853,553)	636,066	28,039	664,105
Loss for the year		–	–	–	–	–	–	–	–	–	–	(242,399)	(242,399)	(1,041)	(243,440)
Other comprehensive income/(loss) for the year:															
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	–	33,002	–	–	–	33,002	–	33,002
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	–	25,094	–	25,094	1,748	26,842
Loss on property revaluation	13	–	–	–	–	(3,316)	–	–	–	–	–	–	(3,316)	–	(3,316)
Share of other comprehensive income of associates		–	–	–	–	–	–	–	–	–	3,037	–	3,037	–	3,037
Total comprehensive income/(loss) for the year		–	–	–	–	(3,316)	–	–	33,002	–	28,131	(242,399)	(184,582)	707	(183,875)
Equity-settled share option arrangements	36	–	–	–	–	–	–	–	–	4,620	–	–	4,620	–	4,620
Shares purchased for Share Award Scheme	36	–	(7,676)	–	–	–	–	–	–	–	–	–	(7,676)	–	(7,676)
Transfer of share option reserve upon the forfeiture or expiry of share options		–	–	–	–	–	–	–	–	(49,117)	–	49,117	–	–	–
At 31 December 2020		353,043	(7,676)	904,845*	2,935*	39,300*	154,381*	7,553*	50,878*	4,620*	(14,616)*	(1,046,835)*	448,428	28,746	477,174

Consolidated Statement of Changes in Equity

Year ended 31 December 2021

		Attributable to owners of the parent													
	Notes	Share capital HK$'000	Shares held for Share Award Scheme HK$'000	Share premium HK$'000	Statutory reserve HK$'000	Asset revaluation reserve HK$'000	Contributed surplus HK$'000	Special reserve HK$'000	Capital reserve HK$'000	Share award reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2021		353,043	(7,676)	904,845	2,935	39,300	154,381	7,553	50,878	4,620	(14,616)	(1,046,835)	448,428	28,746	477,174
Loss for the year		–	–	–	–	–	–	–	–	–	–	(97,329)	(97,329)	(4,998)	(102,327)
Other comprehensive income for the year:															
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	–	34,829	–	–	–	34,829	–	34,829
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	–	12,288	–	12,288	2,954	15,242
Gains on property revaluation	13	–	–	–	–	5,432	–	–	–	–	–	–	5,432	–	5,432
Share of other comprehensive income of associates		–	–	–	–	–	–	–	–	–	1,496	–	1,496	–	1,496
Share of other comprehensive income of a joint venture		–	–	–	–	–	–	–	–	–	26	–	26	–	26
Total comprehensive income/(loss) for the year		–	–	–	–	5,432	–	–	34,829	–	13,810	(97,329)	(43,258)	(2,044)	(45,302)
Shares vested under Share Award Scheme		–	3,298	1,168	–	–	–	–	–	(4,466)	–	–	–	–	–
Shares purchased for Share Award Scheme	36	–	(3,791)	–	–	–	–	–	–	–	–	–	(3,791)	–	(3,791)
Transfer of share award reserve upon the forfeiture or expiry of Award Shares	36	–	–	–	–	–	–	–	–	(154)	–	154	–	–	–
Disposal of a subsidiary		–	–	–	–	716	–	–	–	–	(101)	–	615	(516)	99
At 31 December 2021		353,043	(8,169)	906,013*	2,935*	45,448*	154,381*	7,553*	85,707*	–*	(907)*	(1,144,010)*	401,994	26,186	428,180

* These reserve accounts comprise the consolidated reserves of HK$57,120,000 (2020: HK$103,061,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(100,904)**	(240,248)
Adjustments for:			
Finance costs	7	**6,284**	24,343
Interest income	5	**(5,673)**	(5,730)
Gain on disposal of investment properties	5	**–**	(42,635)
Gain on disposal of a subsidiary	5	**(5,313)**	(20,139)
Loss on deregistration of an associate	6	**57**	–
Loss on disposal of items of property, plant and equipment	6	**6**	153
Dividend income from equity investments at fair value through other comprehensive income	5	**(747)**	(3,097)
Depreciation of property, plant and equipment	6	**13,060**	15,018
Amortisation of other intangible assets	6	**12**	6
Fair value change on financial assets at fair value through profit or loss	5/6	**(7)**	1,564
Loss on uncertainty in respect of collectability of contract assets, net	6	**20,796**	8,958
Changes in fair value of investment properties	6	**–**	32,570
Depreciation of right-of-use assets	6	**874**	2,252
Write-down of inventories to net realisable value	6	**7,447**	–
Impairment loss recognised in respect of trade and bills receivables, net	6	**38,943**	15,388
Impairment loss recognised in respect of prepayments, other receivables and other assets, net	6	**2,976**	10,384
Impairment loss recognised in respect of deposits paid for acquisitions of land use rights	6	**–**	10,567
Impairment loss recognised in respect of properties held for sale	6	**–**	139,009
Share-based payment expenses	36	**–**	4,620
Share of profits and losses of associates		**(4,966)**	5,907
Share of profits and losses of a joint venture		**231**	–
Gain on deemed disposal of interest in a joint venture		**(995)**	–
		(27,919)	(41,110)
Decrease in inventories		**1,077**	6,130
Decrease in trade and bills receivables		**16,860**	357
Decrease in prepayments, other receivables and other assets		**11,488**	20,397
Decrease in contract assets		**11,000**	48,012
Decrease/(increase) in restricted cash		**5,150**	(1,690)
Increase in time deposits		**(465)**	(1)
Decrease in trade and bills payables		**(41,294)**	(49,487)
Decrease in other payables and accruals		**(11,248)**	(4,794)
Decrease in amounts due to associates		**(2,832)**	(4,772)
(Decrease)/increase in contract liabilities		**(5,970)**	4,598
Cash used in operations		**(44,153)**	(22,360)
Income tax paid		**(9,296)**	(1,366)
Net cash flows used in operating activities		**(53,449)**	(23,726)

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	Notes	2021 HK$'000	2020 HK$'000
Net cash flows used in operating activities		**(53,449)**	(23,726)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**947**	262
Dividend income from equity investments designated at fair value through other comprehensive income		**747**	3,097
Purchases of items of property, plant and equipment		**(6)**	(659)
Additions to other intangible assets		**(83)**	(299)
Proceeds on disposal of items of property, plant and equipment		**–**	10
Disposal of investment properties		**60,415**	93,566
Development costs paid for investment properties under construction or development		**–**	(1,275)
Disposals of subsidiaries	38	**73,936**	118,812
Deregistration of an associate		**488**	–
Returned deposits for acquisition of land use rights		**1,874**	–
Advance received from disposal of equity investments at fair value through other comprehensive income		**45,254**	237,643
Investment in an associate		**–**	(875)
Net cash flows from investing activities		**183,572**	450,282
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings	39	**–**	962,452
Principal portion of lease payments	39	**(6,275)**	(6,993)
Repurchase of shares for Share Award Scheme	36	**(3,791)**	(7,676)
Repayment of bank and other borrowings	39	**(91,732)**	(867,990)
Decrease in amounts due to related companies	39	**–**	(475,285)
Interest paid		**(6,284)**	(28,425)
Net cash flows used in financing activities		**(108,082)**	(423,917)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**22,041**	2,639
Cash and cash equivalents at beginning of year		**63,172**	56,871
Effect of foreign exchange rate changes, net		**1,856**	3,662
CASH AND CASH EQUIVALENTS AT END OF YEAR		**87,069**	63,172
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	**87,049**	61,299
Cash held at non-bank financial institutions	29	**20**	1,873
Cash and cash equivalents as stated in the consolidated statement of financial position and consolidated statement of cash flows		**87,069**	63,172

Notes to Financial Statements

31 December 2021

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section in the annual report.

During the year, the Group was involved in the following principal activities:

- Provision, installation and maintenance of shallow geothermal energy utilisation systems
- Trading of air conditioning/shallow geothermal heat pump products
- Investment in properties for their potential rental income
- Trading of securities and other types of investments

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
CGSE Ever Source Group Limited	British Virgin Islands	US dollars ("US$") 166,667	100	–	Investment holding and trading of securities
Ever Source Science & Technology Co., Ltd.* (i) (ii) ("北京恒有源科技有限公司")	People's Republic of China ("PRC")	US$3,000,000	–	100	Technical know-how holding
Beijing Ever Source Geothermal Technology Service Co., Ltd.* (ii) ("北京恒有源地能熱冷技術服務有限公司")	PRC	Renminbi ("RMB") 3,000,000	–	100	Property management and technical support service
Ever Source Science & Technology Development Group Co., Ltd.* (i) (ii) ("恒有源科技發展集團有限公司", "HYY")	PRC	RMB239,188,502	–	100	Production and sale of geothermal energy systems
Beijing Ever Source Environmental System Installation Limited* (ii) ("北京恒有源環境系統設備安裝工程有限公司")	PRC	RMB50,000,000	–	100	Installation of energy systems
Heng Run Feng Reality (Dalian) Company Ltd.* (i) (ii) ("恒潤豐置業(大連)有限公司")	PRC	US$12,000,000	–	100	Property investment and development
Hong Yuan Ground Source Heating Device Technology Co., Ltd.* (ii) ("宏源地能熱寶技術有限公司")	PRC	RMB50,000,000	–	51	Sale of air conditioning/ shallow geothermal heat pump products

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

* The English names of the companies registered in the PRC represent the best efforts of the management of the Company in directly translating the Chinese names of the companies as no English names have been registered.

(i) The subsidiaries are wholly-foreign-owned enterprises established in the PRC.

(ii) The subsidiaries are registered as companies with limited liability under PRC law.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, leasehold land and buildings classified as property, plant and equipment, and equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern basis

During the year ended 31 December 2021, the Group incurred a consolidated net loss of HK$102,327,000 and had consolidated accumulated losses of HK$1,144,010,000. As at 31 December 2021, the Group had net current liabilities of HK$13,060,000.

In view of the net current liabilities position, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

On 24 February 2022, HYY, an indirect wholly owned subsidiary of the Company, entered into the integrated banking facilities agreement with Ping An Bank Co., Ltd. Beijing Branch ("PAB"), whereby PAB agreed to provide loans, lending, bills acceptance and discounting, overdrafts, factoring, guarantees, loan commitments, letter of credit issuance and other credit services for the period from 9 March 2022 to 8 March 2023. The aggregate amounts of the integrated banking facilities are RMB200,000,000 (equivalent to HK$244,618,000).

The directors have reviewed the Group's cash flow forecast prepared by management which covers a period of twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2021 on a going concern basis.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

Notes to Financial Statements

31 December 2021

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2021. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

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

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received Covid-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

Notes to Financial Statements

31 December 2021

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 17	*Insurance Contracts*[2, 5]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2, 4]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[2]
Amendments to HKAS 8	*Definition of Accounting Estimates*[2]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[2]
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[1]
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[1]
Annual Improvements to HKFRSs 2018-2020	*Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41*[1]

1 Effective for annual periods beginning on or after 1 January 2022

2 Effective for annual periods beginning on or after 1 January 2023

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause was revised in October 2020 to align the corresponding wording with no change in conclusion

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

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

Amendments to HKFRS 3 are intended to replace a reference to the previous Framework for the Preparation and Presentation of Financial Statements with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

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

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

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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

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

Notes to Financial Statements

31 December 2021

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

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

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

- HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.

- HKFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and a joint venture

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and the joint venture are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and the joint venture is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or the joint venture are eliminated to the extent of the Group's investments in the associates or the joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or the joint venture is included as part of the Group's investments in associates or the joint venture.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement

The Group measures its investment properties, leasehold land and buildings classified as property, plant and equipment, and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of non-financial assets *(Continued)*

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

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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

Categories	**Estimated useful lives**
Leasehold land and buildings	50 years or over the lease terms, whichever is shorter
Leasehold improvements	5 years or over the lease terms, whichever is shorter
Plant and machinery	8 to 20 years
Computer equipment	4 to 8 years
Office equipment, furniture and fixtures	4 to 5 years
Motor vehicles	5 to 8 years

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" for owned property and/or accounts for such property in accordance with the policy stated under "Right-of-use assets" for property held as a right-of-use asset up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

Intangible assets (other than goodwill)

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

Office software

Acquired office software is capitalised on the bases of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the straight-line basis over its estimated useful life of 10 years.

Research and development costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

Property	2 years

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

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of equipment that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Notes to Financial Statements

31 December 2021

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessor

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

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. The cost of properties held for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses capitalised. Net realisable value represents the estimated selling price, based on prevailing market conditions, less estimated costs of completion and costs to be incurred in selling the property.

Investments and other financial assets

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement *(Continued)*

Financial assets at fair value through profit or loss

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

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

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

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

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

General approach

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Simplified approach

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables, as appropriate.

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

The Group's financial liabilities include trade and bills payables, other payables and accruals, amounts due to associates and related companies and interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase sale, issue or cancellation of the Group's own equity instruments.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

(a) Sale of industrial products

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

Some contracts for the sale of industrial products provide customers with rights of return which gives rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(b) Construction services

Revenue from the provision of construction services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Share-based payments

The Company operates a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 36 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

PRC

Social pension plans

The Group has social pension plans for its employees arranged by local government labour and security authorities. The employer and the employees are each required to make contributions to social pension plans at 16% and 8% of the employees' relevant income, subject to the minimum and maximum relevant income levels. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic and supplementary medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to the statement of profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Hong Kong

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong) for employees employed in Hong Kong. The MPF Scheme is administered by independent trustees. Under the MPF Scheme, the employer and the employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to the minimum and maximum relevant income levels. For monthly paid employees, the minimum and maximum relevant income levels are HK$7,100 and HK$30,000 respectively. Contributions made to the scheme will be vested immediately.

Apart from those described above, the Group does not have any other legal or constructive obligations over employee benefits.

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

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

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

(i) Determining the method to estimate variable consideration and assessing the constraint for construction services

The Group seeks to collect claims from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract, which give rise to variable consideration. The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for claims in construction services, given there is a wide range of possible outcomes which are subject to negotiations with third parties.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, current negotiations with customers, profitability of the head contracts of the customers and the current economic conditions.

(ii) Determining the timing of satisfaction of construction services

The Group concluded that revenue from construction services is recognised over time because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

The Group determined that the input method is the best method in measuring the progress of the construction services because there is a direct relationship between the Group's effort (i.e., costs incurred) and the transfer of services to the customer. The Group recognises revenue on the basis of the costs incurred relative to the total expected costs to complete the services.

Property lease classification – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

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

Judgements *(Continued)*

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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

Estimation of fair value of investment properties and leasehold land and buildings

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amounts of investment properties and leasehold land and buildings at 31 December 2021 were HK$138,699,000 (2020: HK$134,743,000) and HK$178,498,000 (2020: HK$181,449,000), respectively. Further details, including the key assumptions used for fair value measurement, are given in notes 14 and 13 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 34 to the financial statements.

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

Estimation uncertainty *(Continued)*

Impairment of non-financial assets (other than goodwill)

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

Provision against obsolete inventories

The management of the Group reviews an ageing analysis of inventories at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete items. As at 31 December 2021, the carrying value of inventories was approximately HK$16,935,000 (2020: HK$24,733,000). Impairment losses recognised in respect of inventories were HK$7,447,000 (2020: nil).

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 45 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple in 2020. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3 in 2020. In 2021 the fair values of unlisted equity investments have been estimated based on the most recent transaction price. The fair value of the unlisted equity investments at 31 December 2021 was HK$289,873,000 (2020: HK$238,831,000). Further details are included in note 20 to the financial statements.

Provision for expected credit losses on trade receivables and contract assets

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

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 24 and note 23 to the financial statements, respectively.

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

Estimation uncertainty *(Continued)*

Leases – Estimating the incremental borrowing rate

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

4. OPERATING SEGMENT INFORMATION

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

(a) Shallow geothermal energy segment – provision, installation and maintenance of shallow geothermal energy utilisation systems;

(b) Air conditioning/shallow geothermal heat pump segment – trading of air conditioning/shallow geothermal heat pump products;

(c) Property investment and development segment – investments in properties for their potential rental income; and

(d) Securities investment and trading segment – trading of securities and other types of investment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that share of profits and losses of associates and a joint venture, interest income, certain other income, certain administration costs, share-based payment expenses and non-lease-related finance costs are excluded from such measurement.

Segment assets exclude certain investments in associates and a joint venture, time deposits, restricted cash, and cash and cash equivalents as these assets are managed on a group basis.

Segment liabilities exclude certain amounts due to associates, a joint venture and related companies, interest-bearing bank borrowings, deferred tax liabilities and tax payable as these liabilities are managed on a group basis.

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

Notes to Financial Statements

31 December 2021

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2021	Shallow geothermal energy HK$'000	Air conditioning/ shallow geothermal heat pump HK$'000	Property investment and development HK$'000	Securities investment and trading HK$'000	Total HK$'000
Segment revenue *(note 5)*					
Sales to external customers	152,828	15,177	8,830	–	176,835
Intersegment sales	–	10,432	–	–	10,432
	152,828	25,609	8,830	–	187,267
Reconciliation:					
Elimination of intersegment sales					(10,432)
Revenue					176,835
Segment results	(92,752)	(1,667)	7,445	7	(86,967)
Reconciliation:					
Elimination of intersegment results					(536)
Share of profits and losses of associates					4,966
Share of profits and losses of a joint venture					(231)
Unallocated other income					12,177
Corporate and other unallocated expenses					(28,282)
Finance costs (other than interest on lease liabilities)					(2,031)
Loss before tax					(100,904)
Segment assets	570,873	52,437	546,751	355,335	1,525,396
Reconciliation:					
Elimination of intersegment receivables					(109,683)
Corporate and other unallocated assets					149,919
Total assets					1,565,632
Segment liabilities	689,944	47,878	130,089	9,553	877,464
Reconciliation:					
Elimination of intersegment payables					(109,684)
Corporate and other unallocated liabilities					369,672
Total liabilities					1,137,452

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2021	Shallow geothermal energy *HK$'000*	Air conditioning/ shallow geothermal heat pump *HK$'000*	Property investment and development *HK$'000*	Securities investment and trading *HK$'000*	Total *HK$'000*
Other segment information:					
Amounts included in the measure of segment profit or loss or segment assets:					
Depreciation of property, plant and equipment	12,643	217	178	22	13,060
Depreciation of right-of-use assets	874	–	–	–	874
Amortisation of other intangible assets	12	–	–	–	12
Impairment loss recognised in respect of trade and bills receivables, net	38,271	–	672	–	38,943
Impairment loss recognised in respect of prepayments, other receivables and other assets, net	5,197	–	(2,221)	–	2,976
Impairment loss recognised in respect of contract assets, net	20,796	–	–	–	20,796
Write-down of inventories to net realisable value	7,447	–	–	–	7,447
Capital expenditure*	–	–	6	–	6
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Investments in associates	55,495	–	–	–	55,495
Investment in a joint venture	1,254	–	–	–	1,254
Share of profits and losses of associates	4,966	–	–	–	4,966
Share of profits and losses of a joint venture	(231)	–	–	–	(231)

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

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4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2020	Shallow geothermal energy *HK$'000*	Air conditioning/ shallow geothermal heat pump *HK$'000*	Property investment and development *HK$'000*	Securities investment and trading *HK$'000*	Total *HK$'000*
Segment revenue *(note 5)*					
Sales to external customers	174,832	47,897	8,133	–	230,862
Intersegment sales	–	12,993	–	–	12,993
	174,832	60,890	8,133	–	243,855
Reconciliation:					
Elimination of intersegment sales					(12,993)
Revenue					230,862
Segment results	(45,816)	(150)	(142,837)	(1,564)	(190,367)
Reconciliation:					
Elimination of intersegment results					(980)
Share of profits and losses of associates					(5,907)
Unallocated other income					6,963
Corporate and other unallocated expenses					(29,179)
Finance costs (other than interest on lease liabilities)					(20,778)
Loss before tax					(240,248)
Segment assets	788,265	52,225	588,438	300,152	1,729,080
Reconciliation:					
Elimination of intersegment receivables					(132,292)
Corporate and other unallocated assets					123,773
Total assets					1,720,561
Segment liabilities	696,418	48,345	154,936	8,760	908,459
Reconciliation:					
Elimination of intersegment payables					(132,292)
Corporate and other unallocated liabilities					467,220
Total liabilities					1,243,387

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2020	Shallow geothermal energy HK$'000	Air conditioning/ shallow geothermal heat pump HK$'000	Property investment and development HK$'000	Securities investment and trading HK$'000	Total HK$'000
Other segment information:					
Amounts included in the measure of segment profit or loss or segment assets:					
Depreciation of property, plant and equipment	12,716	425	1,855	22	15,018
Depreciation of right-of-use assets	2,252	–	–	–	2,252
Amortisation of other intangible assets	6	–	–	–	6
Impairment loss recognised in respect of trade and bills receivables, net	14,667	–	721	–	15,388
Impairment loss recognised in respect of prepayments, other receivables and other assets, net	6,654	–	3,730	–	10,384
Impairment loss recognised in respect of contract assets, net	8,958	–	–	–	8,958
Impairment of properties held for sale	–	–	139,009	–	139,009
Impairment of deposits paid for acquisitions of land use rights	–	–	10,567	–	10,567
Changes in fair value of investment properties	–	–	32,570	–	32,570
Capital expenditure*	942	16	1,275	–	2,233
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:					
Investments in associates	49,547	–	–	–	49,547
Share of profits and losses of associates	5,907	–	–	–	5,907

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

Geographical information

The Group's operations are mainly located in Mainland China. All of the Group's revenue from external customers is based on the locations where the services were provided or the goods were delivered and all of the Group's non-current assets are located in Mainland China.

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4. OPERATING SEGMENT INFORMATION *(Continued)*

Information about major customers

Information about revenue from major customers which individually accounted for 10% or more of the Group's revenue is shown in the following table:

	2021	2020
	HK$'000	*HK$'000*
Customer A	**15,186**	43,785
Customer B	**–**	23,768
Customer C	**28,492**	–
	43,678	67,553
Total revenue	**176,835**	230,862
Proportion of revenue	**24.7%**	29.3%

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2021	2020
	HK$'000	*HK$'000*
Revenue from contracts with customers	**168,005**	222,729
Revenue from other sources		
Gross rental income from investment property operating leases:		
Other lease payments, including fixed payments	**8,830**	8,133
	176,835	230,862

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2021

Segments	**Shallow geothermal energy**	**Air conditioning/ shallow geothermal heat pump**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Types of goods or services:			
Sale of industrial products	–	**15,177**	**15,177**
Construction services	**152,828**	–	**152,828**
Total revenue from contracts with customers	**152,828**	**15,177**	**168,005**
Geographical market:			
Mainland China	**152,828**	**15,177**	**168,005**
Timing of revenue recognition:			
Goods transferred at a point in time	–	**15,177**	**15,177**
Services transferred over time	**152,828**	–	**152,828**
Total revenue from contracts with customers	**152.828**	**15,177**	**168,005**

For the year ended 31 December 2020

Segments	Shallow geothermal energy	Air conditioning/ shallow geothermal heat pump	Total
	HK$'000	*HK$'000*	*HK$'000*
Types of goods or services:			
Sale of industrial products	–	47,897	47,897
Construction services	174,832	–	174,832
Total revenue from contracts with customers	174,832	47,897	222,729
Geographical market:			
Mainland China	174,832	47,897	222,729
Timing of revenue recognition:			
Goods transferred at a point in time	–	47,897	47,897
Services transferred over time	174,832	–	174,832
Total revenue from contracts with customers	174,832	47,897	222,729

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5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

For the year ended 31 December 2021

Segments	**Shallow geothermal energy** *HK$'000*	**Air conditioning/ shallow geothermal heat pump** *HK$'000*	**Total** *HK$'000*
Revenue from contracts with customers:			
External customers	**152,828**	**15,177**	**168,005**
Intersegment sales	**–**	**10,432**	**10,432**
	152,828	**25,609**	**178,437**
Intersegment adjustments and eliminations	**–**	**(10,432)**	**(10,432)**
Total revenue from contracts with customers	**152,828**	**15,177**	**168,005**

For the year ended 31 December 2020

Segments	Shallow geothermal energy *HK$'000*	Air conditioning/ shallow geothermal heat pump *HK$'000*	Total *HK$'000*
Revenue from contracts with customers:			
External customers	174,832	47,897	222,729
Intersegment sales	–	12,993	12,993
	174,832	60,890	235,722
Intersegment adjustments and eliminations	–	(12,993)	(12,993)
Total revenue from contracts with customers	174,832	47,897	222,729

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2021	2020
	HK$'000	*HK$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Construction services	**27,159**	25,051

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of industrial products

The performance obligation is satisfied upon delivery of the industrial products and payment is generally due within 90 days from delivery. Some contracts provide customers with a right of return which give rise to variable consideration subject to constraint.

Construction services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 90 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2021	2020
	HK$'000	*HK$'000*
Amounts expected to be recognised as revenue:		
Within one year	**158,578**	211,219

All the amounts of transaction prices allocated to the performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

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5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(b) Performance obligations *(Continued)*

	2021 *HK$'000*	2020 *HK$'000*
Other income		
Interest income	**5,673**	5,730
Sale of scrap materials	**416**	348
Government grants *(note)*	**1,255**	1,829
Dividend income from equity investments at fair value through other comprehensive income	**747**	3,097
Fair value change on financial assets at fair value through profit or loss	**7**	–
Income from exempted payables	**–**	3,981
Others	**5,509**	1,233
	13,607	16,218
Gains		
Gain on disposal of investment properties	**–**	42,635
Gain on deemed disposal of interest in a joint venture	**995**	–
Gain on disposal of a subsidiary *(note 38)*	**5,313**	20,139
	6,308	62,774
	19,915	78,992

Note: Government grants have been received in respect of certain heating projects of the Group. There are no unfulfilled conditions or contingencies relating to these grants.

6. LOSS BEFORE TAX

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

	Notes	**2021**	2020
		HK$'000	*HK$'000*
Cost of inventories sold		**14,352**	45,258
Cost of services provided		**131,243**	139,470
Depreciation of property, plant and equipment	*13*	**13,060**	15,018
Depreciation of right-of-use assets	*15(a)*	**874**	2,252
Amortisation of other intangible assets	*17*	**12**	6
Research and development costs		**4,874**	5,562
Impairment of deposits paid for acquisitions of land use rights*	*16*	**–**	10,567
Impairment of properties held for sale*	*21*	**–**	139,009
Lease payments not included in the measurement of lease liabilities	*15(c)*	**274**	1,065
Auditor's remuneration		**2,844**	3,350
Employee benefit expense (including directors' and chief executives' remuneration *(note 8)*):			
Wages and salaries		**64,770**	73,441
Equity-settled share option expense		**–**	4,620
Pension scheme contributions		**3,044**	3,161
		67,814	81,222
Impairment loss recognised in respect of trade and bills receivables, net	*24*	**38,943**	15,388
Impairment loss recognised in respect of prepayments, other receivables and other assets, net	*25*	**2,976**	10,384
Loss on uncertainty in respect of collectability of contract assets, net	*23*	**20,796**	8,958
Write-down of inventories to net realisable value*		**7,447**	–
Changes in fair value of investment properties	*14*	**–**	32,570
Fair value change on financial assets at fair value through profit or loss		**(7)**	1,564
Dividend income from equity investments at fair value through other comprehensive income		**(747)**	(3,097)
Gain on disposal of investment properties		**–**	(42,635)
Gain on disposal of a subsidiary	*38*	**(5,313)**	(20,139)
Loss on disposal of associates		**57**	–
Interest income		**(5,673)**	(5,730)
Loss on disposal of items of property, plant and equipment*		**6**	153

* Impairment losses recognised in respect of deposits paid for acquisitions of land use rights, properties held for sale, loss on disposal of items of property, plant and equipment and write-down of inventories to net realisable value are included in "Other expenses" in the consolidated statement of profit or loss.

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7. FINANCE COSTS

An analysis of finance costs is as follows:

	2021	2020
	HK$'000	*HK$'000*
Interest on bank loans and other loans	**1,931**	19,049
Interest on lease liabilities *(note 15(b))*	**4,253**	3,565
Guarantee fee on bank and other borrowings	**100**	1,729
	6,284	24,343

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2021	2020
	HK$'000	*HK$'000*
Fees	**850**	714
Other emoluments:		
Salaries, allowances and benefits in kind	**10,580**	11,970
Equity-settled share option expense	**–**	1,650
Pension scheme contributions	**54**	54
	10,634	13,674
	11,484	14,388

In 2020, certain directors were granted share options, in respect of their services to the Group, under the share award scheme of the Company, further details of which are set out in note 36 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

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

(a) Independent non-executive directors

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

	Fees	Equity-settled share option expense	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*
2021			
Mr. Wu Qiang	170	–	170
Mr. Jia Wenzeng	170	–	170
Mr. Wu Desheng	170	–	170
Mr. Guo Qingui	170	–	170
Mr. Guan Chenghua	170	–	170
	850	–	850
2020			
Mr. Wu Qiang	150	150	300
Mr. Jia Wenzeng	150	150	300
Mr. Wu Desheng	150	150	300
Mr. Guo Qingui	150	150	300
Mr. Guan Chenghua *(note (5))*	114	150	264
	714	750	1,464

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

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

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

	Salaries, allowances and benefits in kind *HK$'000*	Equity-settled share option expense *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2021				
Chief executives:				
Mr. Xue Jiangyun *(note (6))*	**1,620**	**–**	**–**	**1,620**
	1,620	**–**	**–**	**1,620**
Executive directors:				
Ms. Chan Wai Kay, Katherine	**1,470**	**–**	**18**	**1,488**
Mr. Xu Shengheng	**2,900**	**–**	**18**	**2,918**
Mr. Dai Qi	**756**	**–**	**–**	**756**
Ms. Wang Yan	**1,116**	**–**	**–**	**1,116**
Ms. Hao Xia *(note (1))*	**1,080**	**–**	**–**	**1,080**
Mr. Wang Manquan *(note (7))*	**1,458**	**–**	**18**	**1,476**
	8,780	**–**	**54**	**8,834**
Non-executive directors:				
Ms. Liu Ening *(note (8))*	**60**	**–**	**–**	**60**
Mr. Yang Wei	**60**	**–**	**–**	**60**
Mr. Zhang Yiying *(note (3))*	**60**	**–**	**–**	**60**
	180	**–**	**–**	**180**
	10,580	**–**	**54**	**10,634**
2020				
Chief executives:				
Mr. Xue Jiangyun *(note (6))*	575	–	–	575
Mr. Wang Manquan *(note (7))*	1,080	–	12	1,092
	1,655	–	12	1,667
Executive directors:				
Ms. Chan Wai Kay, Katherine	1,920	300	18	2,238
Mr. Zang Yiran *(note (4))*	774	–	–	774
Mr. Xu Shengheng	3,800	300	18	4,118
Mr. Dai Qi	839	–	–	839
Ms. Wang Yan	2,016	–	–	2,016
Ms. Hao Xia *(note (1))*	426	–	–	426
Mr. Wang Manquan *(note (7))*	540	–	6	546
	10,315	600	42	10,957
Non-executive directors:				
Mr. Wang Michael Zhiyu (Ms. Liu Ening being his alternate director) *(note (2))*	–	150	–	150
Mr. Yang Wei	–	–	–	–
Mr. Zhang Yiying *(note (3))*	–	150	–	150
	–	300	–	300
	11,970	900	54	12,924

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

(b) Executive directors, non-executive directors and the chief executive *(Continued)*

Notes:

(1) Ms. Hao Xia was appointed as an executive director effective from 24 August 2020 and resigned as an executive director effective from 18 February 2022.

(2) Ms. Liu Ening ("Ms. Liu") was appointed as an alternate director to Mr. Wang Michael Zhiyu ("Mr. Wang"), a non-executive director, with effect from 14 November 2019. The appointment shall remain effective until Mr. Wang ceases to be a non-executive director or the appointment of Ms. Liu has been revoked by Mr. Wang, whichever is earlier. There is no service agreement between Ms. Liu and the Company with respect to her appointment as an alternate director to Mr. Wang. Ms. Liu will not receive any remuneration in her capacity as an alternate director to Mr. Wang.

(3) Mr. Zhang Yiying was appointed as a non-executive director effective from 16 January 2020.

(4) Mr. Zang Yiran resigned as an executive director effective from 24 August 2020.

(5) Mr. Guan Chenghua was appointed as an independent non-executive director effective from 28 March 2020.

(6) Mr. Xue Jiangyun was appointed as the chief executive officer effective from 24 August 2020.

(7) Mr. Wang Manquan was re-designated from the chief executive to the chief operating officer effective from 24 August 2020.

(8) Mr. Wang Michael Zhiyu resigned as non-executive Director effect from 12 March 2021, Ms. Liu Ening ceased to act as alternate Director to Mr. Wang Zhiyu and was appointed as non-executive Director with effect from 12 March 2021.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five directors (2020: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of zero (2020: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2021 ***HK$'000***	2020 *HK$'000*
Salaries, allowances and benefits in kind	–	318
Equity-settled share option expense	–	2,250
Pension scheme contributions	–	–
	–	2,568

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9. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2021	2020
HK$2,500,001 to HK$3,000,000	**–**	1
	–	1

In 2020, Award Shares were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 36 to the financial statements. The fair value of such shares, which has been recognised in the statement of profit or loss in 2020, was determined as at the date of grant and the amount included in the financial statements in 2020 is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX EXPENSE

Pursuant to the laws and regulations of the Cayman Islands and the BVI, the Group was not subject to any income tax in the Cayman Islands and the BVI during both years.

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits subject to Hong Kong profits tax during both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, except as stated below, the tax rate of all the other PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the income tax rules and regulations of the PRC, certain subsidiaries were recognised as high and new technology enterprises and the income tax rate applicable to these subsidiaries was 15% for the year ended 31 December 2021 (2020: 15%).

	2021	2020
	HK$'000	*HK$'000*
Current – Mainland China	**1,433**	31,369
Deferred *(note 34)*	**(10)**	(28,177)
Total tax charge for the year	**1,423**	3,192

10. INCOME TAX EXPENSE *(Continued)*

A reconciliation of the tax expense applicable to loss before tax at the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2021	2020
	HK$'000	*HK$'000*
Loss before tax	**(100,904)**	(240,248)
Tax at statutory tax rate of 25%	**(25,226)**	(60,062)
Profits and losses attributable to a joint venture and associates	**(1,183)**	1,477
Tax losses utilised from previous periods	**(61)**	(7,371)
Income not subject to tax	**(1,678)**	(3,374)
Expenses not deductible for tax	**7,019**	11,855
Special deduction of research and development costs	**(507)**	(958)
Effect on opening deferred tax of increase in rates	**–**	3,916
Utilisation of deductible temporary differences previously not recognised	**(844)**	(1,792)
Tax losses and deductible temporary differences not recognised	**27,543**	42,326
Effect of disposals of subsidiaries	**(3,640)**	17,175
Tax charge at the Group's effective rate	**1,423**	3,192

The share of tax attributable to a joint venture and associates amounting to HK$1,241,000 (2020: negative HK$1,477,000) and negative HK$58,000 (2020: Nil), respectively, is included in "Share of profits and losses of a joint venture and associates" in the consolidated statement of profit or loss.

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11. DIVIDENDS

During the years ended 31 December 2021 and 2020, no final dividend was declared and paid to the shareholders of the Company.

Subsequent to the end of the reporting period, no final dividend in respect of the year ended 31 December 2021 has been proposed by the directors of the Company.

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

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 4,418,884,000 (2020: 4,439,460,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the year ended 31 December 2020 in respect of a dilution as the impact of the Award Shares outstanding had an anti-dilutive effect on the basic loss per share amounts presented. The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2021.

The calculations of basic and diluted loss per share are based on:

	2021	2020
	HK$'000	*HK$'000*
Loss		
Loss attributable to ordinary equity holders of the parent	**(97,329)**	(242,399)

	Number of shares	
	2021	2020
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculations	**4,418,884**	4,439,460

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Computer equipment HK$'000	Office equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2021							
At 1 January 2021:							
Cost or valuation	181,449	3,695	98,532	3,432	14,033	9,944	311,085
Accumulated depreciation and impairment	–	(3,483)	(71,417)	(3,188)	(10,209)	(9,429)	(97,726)
Net carrying amount	181,449	212	27,115	244	3,824	515	213,359
At 1 January 2021, net of accumulated depreciation and impairment	181,449	212	27,115	244	3,824	515	213,359
Additions	–	–	–	6	–	–	6
Disposals	–	–	–	(3)	(3)	–	(6)
Disposal of a subsidiary *(note 38)*	(10,022)	–	(139)	–	(361)	(61)	(10,583)
Depreciation provided during the year	(3,352)	(135)	(8,979)	(49)	(448)	(97)	(13,060)
Surplus on revaluation	5,432	–	–	–	–	–	5,432
Exchange realignment	4,991	8	785	8	100	12	5,904
At 31 December 2021, net of accumulated depreciation and impairment	178,498	85	18,782	206	3,112	369	201,052
At 31 December 2021:							
Cost or valuation	178,498	3,748	101,509	3,526	14,036	10,038	311,355
Accumulated depreciation and impairment	–	(3,663)	(82,727)	(3,320)	(10,924)	(9,669)	(110,303)
Net carrying amount	178,498	85	18,782	206	3,112	369	201,052

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

	Leasehold land and buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Computer equipment *HK$'000*	Office equipment, furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2020							
At 1 January 2020:							
Cost or valuation	262,946	3,354	91,791	3,224	13,325	9,619	384,259
Accumulated depreciation and impairment	–	(3,285)	(58,563)	(3,006)	(9,004)	(8,899)	(82,757)
Net carrying amount	262,946	69	33,228	218	4,321	720	301,502
At 1 January 2020, net of accumulated depreciation and impairment	262,946	69	33,228	218	4,321	720	301,502
Additions	–	231	344	22	59	3	659
Disposals	–	–	(14)	–	(149)	–	(163)
Depreciation provided during the year	(5,395)	(106)	(8,569)	(13)	(685)	(250)	(15,018)
Deficit on revaluation	(3,316)	–	–	–	–	–	(3,316)
Transfer to properties held for sale	(89,710)	–	–	–	–	–	(89,710)
Exchange realignment	16,924	18	2,126	17	278	42	19,405
At 31 December 2020, net of accumulated depreciation and impairment	181,449	212	27,115	244	3,824	515	213,359
At 31 December 2020:							
Cost or valuation	181,449	3,695	98,532	3,432	14,033	9,944	311,085
Accumulated depreciation and impairment	–	(3,483)	(71,417)	(3,188)	(10,209)	(9,429)	(97,726)
Net carrying amount	181,449	212	27,115	244	3,824	515	213,359

The Group's leasehold land and buildings were revalued individually at the end of the reporting period by Peak Vision Appraisals Limited, an independent professionally qualified valuer, at an aggregate open market value of HK$178,498,000 (2020: HK$181,449,000) based on their existing use. A revaluation surplus of HK$5,432,000 (2020: a revaluation deficit of HK$3,316,000), resulting from the above valuations, has been charged to other comprehensive income.

As at 31 December 2021, the Group was in the process of obtaining the ownership certificates for certain buildings of a carrying amount of approximately HK$178,498,000 (2020: HK$171,386,000). In the opinion of the directors of the Company, the absence of a formal title to these buildings does not impair their values to the Group as the Group has paid the full purchase consideration of these buildings and the probability of being evicted on the ground of the absence of a formal title is remote.

At 31 December 2021, certain of the Group's buildings with a net carrying amount of nil (2020: HK$9,743,000) were pledged to secure a bank loan (note 32).

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

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's leasehold land and buildings:

	Fair value measurement as at 31 December 2021 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Recurring fair value measurement for:	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Office buildings in Beijing, the PRC	–	–	**178,498**	**178,498**
	–	–	**178,498**	**178,498**

	Fair value measurement as at 31 December 2020 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Office buildings in Beijing, the PRC	–	–	171,386	171,386
Office buildings in Hangzhou, the PRC	–	10,063	–	10,063
	–	10,063	171,386	181,449

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2020: Nil).

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

Fair value hierarchy *(Continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	A club house in Dalian HK$'000	Office buildings in Beijing HK$'000
Carrying amount at 1 January 2020	78,613	166,749
Depreciation during the year	(1,590)	(3,372)
Exchange realignment	5,061	10,732
Transfer to properties held for sale	(81,606)	–
Net loss from a fair value adjustment recognised in other comprehensive income	(478)	(2,723)
Carrying amount at 31 December 2020 and 1 January 2021	–	171,386
Depreciation during the year	–	(3,352)
Exchange realignment	–	5,032
Net gain from a fair value adjustment recognised in other comprehensive income	–	5,432
Carrying amount at 31 December 2021	–	178,498

Set out below is a summary of the valuation techniques used and the key inputs to the valuation of leasehold land and buildings:

At 31 December 2021

Carrying value of leasehold land and buildings held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
Office buildings in Beijing, the PRC HK$178,498,000	Level 3	Income approach	Market unit rent of RMB4.50 per sq.m. per day	An increase in the market unit rent would result in an increase in fair value
			Market yield of 5.80%	An increase in the market yield would result in a decrease in fair value

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

Fair value hierarchy *(Continued)*

At 31 December 2020

Carrying value of leasehold land and buildings held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
Office buildings in Beijing, the PRC HK$171,386,000	Level 3	Income approach	Market unit rent of RMB4.43 per sq.m. per day	An increase in the market unit rent would result in an increase in fair value
			Market yield of 6.00%	An increase in the market yield would result in a decrease in fair value
Office buildings in Hangzhou, the PRC HK$10,063,000	Level 2	Direct comparison method	N/A	N/A

14. INVESTMENT PROPERTIES

	2021 *HK$'000*	2020 *HK$'000*
Carrying amount at 1 January	**134,743**	677,933
Exchange realignment	**3,956**	41,835
Development costs paid	–	1,275
Disposals	–	(248,621)
Net loss from a fair value adjustment	–	(32,570)
Transfer to properties held for sale *(note 22)*	–	(305,109)
Carrying amount at 31 December	**138,699**	134,743

As at 31 December 2021, the Group was in the process of obtaining the ownership certificates for certain investment properties of a carrying amount of approximately HK$138,699,000 (2020: HK$134,743,000). In the opinion of the directors of the Company, the absence of a formal title to these properties does not cause the impairment of their values to the Group as the Group has paid the full purchase consideration of these properties and the probability of being evicted on the ground of the absence of a formal title is remote.

14. INVESTMENT PROPERTIES *(Continued)*

The Group's investment properties consist of industrial and ancillary properties, based on the nature, characteristics and risks of each property. The Group's investment properties were measured at fair value on 31 December 2021 based on valuations performed by the Group's management and the chief financial officer, at HK$138,699,000.

Some investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2021 using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Recurring fair value measurement for:	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Industrial and ancillary properties	–	**138,699**	–	**138,699**

	Fair value measurement as at 31 December 2020 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Recurring fair value measurement for:	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Industrial and ancillary properties	–	134,743	–	134,743

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2020:Nil).

14. INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Industrial and ancillary properties HK$'000	Residential property HK$'000	Commercial property HK$'000
Carrying amount at 1 January 2020	197,804	159,749	25,553
Exchange realignment	12,961	8,201	1,512
Disposals	(80,845)	–	–
Net loss from a fair value adjustment recognised in profit or loss	3,577	(33,682)	(2,421)
Transfer to properties held for sale *(note 22)*	(133,497)	(134,268)	(24,644)
Carrying amount at 1 January 2021 and 31 December 2021	–	–	–

Set out below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

At 31 December 2021

Carrying value of investment properties held by the Group	**Fair value hierarchy**	**Valuation techniques**	**Significant unobservable inputs**	**Relationship of significant unobservable inputs to fair value**
Industrial and ancillary property in Mianyang, the PRC	Level 2	Direct comparison method	N/A	N/A
HK$138,699,000				

At 31 December 2020

Carrying value of investment properties held by the Group	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
Industrial and ancillary property in Mianyang, the PRC	Level 2	Direct comparison method	N/A	N/A
HK$134,743,000				

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15. LEASES

The Group as a lessee

The Group has lease contracts for various items of property and other equipment used in its operations. Leases of property generally have lease terms between 1 and 10 years. Other equipment generally has lease terms of 12 months or less or is individually of low value.

(a) Right-of-use assets

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

	Property
	HK$'000
As at 1 January 2020	2,579
Additions	93,205
Derecognised due to the effect of a sublease	(91,561)
Cancellation of lease contracts	(976)
Depreciation charge	(2,252)
Exchange realignment	55
As at 31 December 2020 and 1 January 2021	1,050
Depreciation charge	(874)
Exchange realignment	2
As at 31 December 2021	178

15. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) Lease liabilities

The carrying amounts of lease liabilities and the movements during the year are as follows:

	2021	2020
	HK$'000	*HK$'000*
Carrying amount at 1 January	**95,479**	2,159
New leases *(note)*	**–**	95,542
Cancellation of lease contracts	**–**	(1,010)
Accretion of interest recognised during the year	**4,253**	3,565
Payments	**(10,528)**	(10,558)
Exchange realignment	**3,461**	5,781
Carrying amount at 31 December	**92,665**	95,479
Analysed into:		
Current portion	**5,929**	5,889
Non-current portion	**86,736**	89,590

The maturity analysis of lease liabilities is disclosed in note 46 to the financial statements.

Note: The Group enters into an arrangement to sublease a leased asset to a third party while the original lease contract is in effect, the Group is an intermediate lessor, this sublease is classified as a finance lease. The Group derecognised the right-of-use asset on the head lease and recognised trade receivables at the sublease commencement date, continued to account for the original lease liability in accordance with the lessee accounting model. At the commencement date, the Group measured the lease liabilities at HK$92,665,000.

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15. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2021	2020
	HK$'000	*HK$'000*
Interest on lease liabilities	**4,253**	3,565
Depreciation charge of right-of-use assets	**874**	2,252
Expense relating to short-term leases (included in administrative expenses)	**77**	1,036
Expense relating to leases of low-value assets (included in administrative expenses)	**197**	29
Total amount recognised in profit or loss	**5,401**	6,882

(d) The total cash outflow for leases is disclosed in note 39(b) to the financial statements.

The Group as a lessor

The Group leases its investment properties (note 14) consisting of three industrial properties in China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK$8,830,000 (2020: HK$8,133,000), details of which are included in note 5 to the financial statements.

At 31 December 2020 and 2021, the undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2021	2020
	HK$'000	*HK$'000*
Within one year	**5,804**	2,935
After one year but within two years	**5,993**	3,066
After two years but within three years	**6,194**	3,250
After three years but within four years	**6,407**	3,445
After four years but within five years	**6,632**	3,652
After five years	**25,006**	12,729
	56,036	29,077

16. DEPOSITS PAID FOR ACQUISITIONS OF LAND USE RIGHTS

	2021	2020
	HK$'000	*HK$'000*
Carrying amount at 1 January	**17,823**	27,221
Disposal of a subsidiary *(note 38)*	**(15,874)**	–
Deposits returned	**(1,874)**	–
Impairment during the year *(note 6)*	–	(10,567)
Exchange realignment	**(75)**	1,169
Carrying amount at 31 December	–	17,823

17. OTHER INTANGIBLE ASSETS

	Office software
	HK$'000
31 December 2021	
Cost at 1 January 2021, net of accumulated amortisation	293
Additions	83
Disposal of a subsidiary *(note 38)*	(364)
Amortisation provided during the year *(note 6)*	(12)
At 31 December 2021	–
At 31 December 2021:	
Cost	–
Accumulated amortisation	–
Net carrying amount	–

	Office software
	HK$'000
31 December 2020	
Cost at 1 January 2020, net of accumulated amortisation	–
Additions	299
Amortisation provided during the year *(note 6)*	(6)
At 31 December 2020	293
At 31 December 2020:	
Cost	299
Accumulated amortisation	(6)
Net carrying amount	293

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18. INVESTMENT IN A JOINT VENTURE

	2021	2020
	HK$'000	*HK$'000*
Share of net assets	**1,254**	–

The Group's other payable balances due to a joint venture are disclosed in note 27 to the financial statements.

Particulars of the Group's joint venture as at 31 December 2021 are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Zhejiang Wanhe Energy and Technology Co., Ltd.* ("浙江萬合能源環境科技有限公司") ("Zhejiang Wanhe")	Registered capital of RMB12,779,000	PRC/ Mainland China	33.22	33.22	33.22	Exploration and development of energy resources

* The English name of the company registered in the PRC represents the best efforts of management of the Company in directly translating the Chinese name of the company as no English name has been registered.

18. INVESTMENT IN A JOINT VENTURE *(Continued)*

The following table illustrates the financial information of Zhejiang Wanhe that is not individually material:

	2021	2020
	HK$'000	*HK$'000*
Share of the joint venture's loss for the year (*note (3)*)	**(231)**	–
Share of the joint venture's other comprehensive income (*note (3)*)	**26**	–
Share of the joint venture's total comprehensive loss (*note (3)*)	**(205)**	–
Aggregate carrying amount of the Group's investment in the joint venture	**1,254**	–

Notes:

(1) On 31 August 2019, the Group signed an acting-in-concert agreement with another shareholder of Zhejiang Wanhe and obtained the control in Zhejiang Wanhe. Since then, Zhejiang Wanhe became a subsidiary of the Group.

(2) Zhejiang Wanhe planned to issues shares to third parties, the acting-in-concert agreement was cancelled on 1 April 2021 in order to make the share issuance smoothly. The Group does not have control over Zhejiang Wanhe and Zhejiang Wanhe became a joint venture of the Group. In September 2021, Zhejiang Wanhe issued shares and the Group's interest was diluted from 47.39% to 33.22%.

(3) The above amounts represented share of the joint venture's comprehensive income/loss after becoming a joint venture of the Group.

19. INVESTMENTS IN ASSOCIATES

	2021	2020
	HK$'000	*HK$'000*
Share of net assets	**55,013**	49,065
Goodwill on acquisition	**482**	482
	55,495	49,547

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19. INVESTMENTS IN ASSOCIATES *(Continued)*

Particulars of the Group's associates are as follows:

Name	Particulars of issued shares	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Beijing Ever Hot Pumps Co., Ltd.* ("BEHP", "北京永源熱泵有限責任公司")	Registered capital of RMB52,556,871	PRC/Mainland China	49	Production and sale of machines and shallow geothermal energy systems
Hongyuan Shallow Ground Heat Pump Technology Co., Ltd.* ("宏源地能熱泵科技有限公司")	Registered capital of RMB50,000,000	PRC/Mainland China	49	Trading of the shallow geothermal energy systems
Nanjing Bailing Environmental Protection Energy Partnership (Limited Partnership)* ("南京百靈環保新能源合夥企業（有限合夥）")	Registered capital of RMB3,600,000	PRC/Mainland China	22.22	Energy technology service

* The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of the companies as no English names have been registered.

BEHP, which is considered a material associate of the Group, is accounted for using the equity method.

The following table illustrates the summarised financial information in respect of BEHP adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2021	2020
	HK$'000	*HK$'000*
Current assets	**66,317**	62,965
Non-current assets	**3,781**	4,224
Current liabilities	**(12,596)**	(11,582)
Net assets	**57,502**	55,607
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**49%**	49%
Group's share of net assets of the associate, excluding goodwill	**28,176**	27,247
Goodwill on acquisition (less cumulative impairment)	**482**	482
Carrying amount of the investment	**28,658**	27,729
Revenue	**32,688**	16,553
Profit/(loss) for the year	**259**	(6,324)
Other comprehensive income	**1,637**	3,418
Total comprehensive profit/(loss) for the year	**1,896**	(2,906)
Dividend received	**–**	–

19. INVESTMENTS IN ASSOCIATES *(Continued)*

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2021	2020
	HK$'000	*HK$'000*
Share of the associates' profit/(loss) for the year	**4,839**	(2,808)
Share of the associates' other comprehensive income	**694**	1,362
Share of the associates' total comprehensive income/(loss)	**5,533**	(1,446)
Aggregate carrying amount of the Group's investments in the associates	**26,837**	21,818

20. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021	2020
	HK$'000	*HK$'000*
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value		
China Asset Management – Ever Source overseas oriented asset management plan	**62,154**	59,236
Beijing Hisign Technology Co., Ltd.	**2,549**	1,341
	64,703	60,577
Unlisted equity investments, at fair value		
Beijing Life Insurance Co., Ltd. *(note)*	**289,873**	238,831
	354,576	299,408
Less: Non-current portion	**(64,703)**	(60,577)
Current portion	**289,873**	238,831

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. During the year ended 31 December 2021, the Group received dividends in the amount of HK$747,000 (2020: HK$3,097,000).

Note: On 13 November 2020, Ever Source Investment Management Co., Ltd. (恒有源投資管理有限公司) ("Ever Source Investment"), an indirect wholly owned subsidiary of the Company, entered into equity transfer agreements to sell approximately 4.99965% of equity interests in Beijing Life Insurance Co., Ltd. ("Beijing Life") for a cash consideration of RMB237,000,000. At the extraordinary general meeting held on 19 February 2021, the Shareholders of the Company passed the ordinary resolution in respect of the equity transfer agreement. At 31 December 2021, the transaction was not completed.

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21. INVENTORIES

	2021 HK$'000	2020 HK$'000
Raw materials	**13,500**	22,404
Finished goods	**3,435**	2,329
	16,935	24,733

22. PROPERTIES HELD FOR SALE

	2021 HK$'000	2020 HK$'000
At 1 January	**342,652**	88,796
Exchange realignment	**9,502**	(1,954)
Impairment during the year *(note 6)*	**–**	(139,009)
Disposal of a subsidiary *(note 38)*	**(16,498)**	–
Transfer from property, plant and equipment *(note 13)*	**–**	89,710
Transfer from investment properties *(note 14)*	**–**	305,109
At 31 December	**335,656**	342,652

The above properties held for sale are situated in the PRC.

23. CONTRACT ASSETS AND CONTRACT LIABILITIES

	31 December 2021 HK$'000	31 December 2020 HK$'000	1 January 2020 HK$'000
Contract assets arising from:			
Construction services	**574,700**	567,682	577,034
Impairment	**(458,532)**	(424,965)	(390,343)
	116,168	142,717	186,691
Less: Non-current portion	**(20,713)**	(20,213)	(18,794)
Current portion	**95,455**	122,504	167,897
Contract liabilities arising from:			
Construction services	**46,759**	51,225	43,807

23. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

Contract assets are initially recognised for revenue earned from the provision of construction services as the receipt of consideration is conditional on successful completion of construction. Included in contract assets for construction services are retention receivables. Upon completion of construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The decrease in contract assets in 2021 and 2020 was a result of the decrease in the provision of construction services at the end of each of the years. During the year ended 31 December 2021, HK$20,796,000 (2020: HK$8,958,000) was recognised as an allowance for expected credit losses on contract assets and charged to the statement of profit or loss. The Group's trading terms and credit policy with customers are disclosed in note 24 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

	2021	2020
	HK$'000	*HK$'000*
Within one year	**95,455**	122,504
After one year	**20,713**	20,213
Total contract assets	**116,168**	142,717

The movements in the loss allowance for impairment of contract assets are as follows:

	2021	2020
	HK$'000	*HK$'000*
At beginning of year	**424,965**	390,343
Impairment losses, net *(note 6)*	**20,796**	8,958
Exchange realignment	**12,771**	25,664
At end of year	**458,532**	424,965

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

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23. CONTRACT ASSETS AND CONTRACT LIABILITIES *(Continued)*

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

As at 31 December 2021

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Expected credit loss rate	**5.00%**	**36.56%**	**60.97%**	**76.20%**	**90.86%**	**98.55%**	**79.79%**
Gross carrying amount *(HK$'000)*	**61,155**	**48,880**	**32,083**	**19,811**	**50,034**	**362,737**	**574,700**
Expected credit losses *(HK$'000)*	**3,058**	**17,872**	**19,560**	**15,096**	**45,460**	**357,486**	**458,532**

As at 31 December 2020

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Expected credit loss rate	5.00%	34.93%	58.24%	70.06%	91.53%	98.74%	74.86%
Gross carrying amount *(HK$'000)*	80,652	48,176	22,475	51,360	74,722	290,297	567,682
Expected credit losses *(HK$'000)*	4,033	16,828	13,089	35,983	68,393	286,639	424,965

Contract liabilities include short-term advances received to deliver construction services. The decrease in contract liabilities in 2021 was mainly due to the decrease in short-term advances received from customers in relation to the provision of construction services at the end of the year.

24. TRADE AND BILLS RECEIVABLES

	2021	2020
	HK$'000	*HK$'000*
Trade receivables	**311,002**	321,087
Impairment	**(165,017)**	(123,465)
Trade receivables, net	**145,985**	197,622
Bills receivable	**–**	223
	145,985	197,845
Less: Non-current portion	**(106,155)**	(139,102)
Current portion	**39,830**	58,743

In 2020, the Group entered into an arrangement to sublease a leased asset to a third party while the original lease contract is in effect, the Group is an intermediate lessor, this sublease is classified as a finance lease. The Group derecognised the right-of-use asset on the head lease and recognised trade receivables at the sublease commencement date, continued to account for the original lease liability in accordance with the lessee accounting model. At 31 December 2021, the current portion and non-current portion of the trade receivables amounted to RMB8,058,000 (2020: RMB8,022,000) (equivalent to approximately HK$9,856,000 (2020: HK$9,532,000)) and RMB63,249,000 (2020: RMB71,272,000) (equivalent to approximately HK$77,359,000 (2020:HK$84,656,000)), respectively.

The Group's trading terms with its customers are mainly on credit. The credit period is generally three months. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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24. TRADE AND BILLS RECEIVABLES *(Continued)*

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

	2021	2020
	HK$'000	*HK$'000*
Within 90 days	**127,954**	106,295
91 to 180 days	**1,740**	3,995
181 to 365 days	**6,004**	9,625
Over 365 days	**10,287**	77,930
	145,985	197,845

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

	2021	2020
	HK$'000	*HK$'000*
At beginning of year	**123,465**	100,740
Disposal of a subsidiary	**(1,035)**	–
Impairment losses, net *(note 6)*	**38,943**	15,388
Exchange realignment	**3,644**	7,337
At end of year	**165,017**	123,465

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

24. TRADE AND BILLS RECEIVABLES *(Continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix based on the grouping of various customer segments:

As at 31 December 2021

Group one: construction services

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Expected credit loss rate	14.15%	52.81%	72.22%	82.09%	87.58%	100.00%	68.19%
Gross carrying amount *(HK$'000)*	49,809	6,898	11,544	8,400	14,113	74,192	164,956
Expected credit losses *(HK$'000)*	7,048	3,643	8,337	6,896	12,360	74,192	112,476

Group two: others

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Expected credit loss rate	2.68%	31.78%	45.11%	60.93%	81.60%	100.00%	3.76%
Gross carrying amount *(HK$'000)*	95,493	343	348	215	326	433	97,158
Expected credit losses *(HK$'000)*	2,557	109	157	131	266	433	3,653

Some trade receivables were credit-impaired at the reporting date and the amounts were HK$48,888,000 (2020: HK$47,494,000). HK$48,888,000 (2020: HK$7,533,000) was recognized as an allowance for expected credit losses, with the expected credit loss rate at 100% in 2021 (2020: 15.86%).

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24. TRADE AND BILLS RECEIVABLES *(Continued)*

As at 31 December 2020

Group one: construction services

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Expected credit loss rate	15.86%	55.36%	73.88%	80.78%	87.27%	100.00%	54.25%
Gross carrying amount *(HK$'000)*	102,893	17,458	11,561	15,624	8,269	65,950	221,755
Expected credit losses *(HK$'000)*	16,319	9,665	8,541	12,621	7,216	65,950	120,312

Group two: others

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Expected credit loss rate	2.43%	25.65%	37.54%	54.30%	78.07%	100.00%	3.17%
Gross carrying amount *(HK$'000)*	97,970	417	208	317	23	397	99,332
Expected credit losses *(HK$'000)*	2,381	107	78	172	18	397	3,153

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2021 *HK$'000*	2020 *HK$'000*
Prepayments	**37,439**	40,336
Deposits	**13,660**	19,903
Other receivables	**143,507**	245,676
Less: Impairment allowance	**(85,738)**	(80,840)
	108,868	225,075

25. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS *(Continued)*

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

	2021	2020
	HK$'000	*HK$'000*
At beginning of year	**80,840**	66,864
Disposal of a subsidiary	**(245)**	–
Exchange realignment	**2,167**	3,592
Impairment losses, net *(note 6)*	**2,976**	10,384
At end of year	**85,738**	80,840

Deposits and other receivables mainly represent rental deposits, deposits with suppliers and receivables related to the disposal of a subsidiary. An impairment analysis is performed at each reporting date, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group.

26. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

As at 31 December 2021, the Group's amounts due from related companies were HK$567,000 (2020: HK$551,000), which were construction receivables from China Energy Conservation and Environmental Protection Group's ("CECEP") subsidiaries.

As at 31 December 2021, the Group's amounts due to related companies included a guarantee fee payable of RMB25,618,000 (2020: RMB25,535,000) (equivalent to HK$31,334,000 (2020: HK$30,341,000)) provided by CECEP.

27. AMOUNTS DUE TO ASSOCIATES AND A JOINT VENTURE

The amounts are unsecured, interest-free and repayable on demand.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021	2020
	HK$'000	*HK$'000*
Listed equity investments, at fair value	**41**	34

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

29. CASH AND CASH EQUIVALENTS, RESTRICTED CASH AND TIME DEPOSITS

	2021	2020
	HK$'000	*HK$'000*
Cash and bank balances	**87,049**	61,299
Cash held at non-bank financial institutions	**20**	1,873
Restricted cash	**2,391**	7,326
Time deposits	**698**	233
	90,158	70,731
Less: Time deposits with original maturity over three months	**(698)**	(233)
Restricted cash	**(2,391)**	(7,326)
Cash and cash equivalents	**87,069**	63,172

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$69,709,000 (2020: HK$59,728,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

30. TRADE AND BILLS PAYABLES

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

	2021	2020
	HK$'000	*HK$'000*
Within 90 days	**73,633**	121,586
91 to 180 days	**2,047**	3,509
181 to 365 days	**6,334**	7,506
Over 365 days	**164,427**	147,311
	246,441	279,912

The trade and bills payables are non-interest-bearing and are normally settled on terms of six months.

31. OTHER PAYABLES AND ACCRUALS

	2021 HK$'000	2020 HK$'000
Accruals	**65,196**	64,485
Advance received for disposal of equity investments at fair value through other comprehensive income	**289,873**	237,643
Other payables	**105,097**	128,806
	460,166	430,934

Other payables are non-interest-bearing and have no fixed terms of settlement.

32. INTEREST-BEARING BANK BORROWINGS

	2021			2020		
	Effective interest rate (%)	**Maturity**	***HK$'000***	Effective interest rate (%)	Maturity	*HK$'000*
Current						
Bank loans – secured *(note 1)*	–	–	–	4	2021	89,116
Bank loans – secured *(note 2)*	–	–	–	5.5	2021	5,347
Bank loans – secured *(note 3)*	–	–	–	5.98	2021	6,535
			–			100,998

Note 1: A deemed substantial shareholder of the Company, CECEP, provided a guarantee for a loan, which was borrowed from a bank, and the Company agreed to pay a guarantee fee at the rate of 1% per annum on the amount of the remaining loan. The loan bore interest at 4% per annum. The Company repaid this loan in 2021

Note 2: The bank loans are secured by mortgages over a non-controlling shareholder's buildings in 2020.

Note 3: The bank loans are secured by mortgages over the Group's buildings, which had an aggregate net carrying value at 31 December 2020 of approximately HK$9,743,000.

	2021 HK$'000	2020 HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	–	100,998

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33. DEFERRED INCOME

	2021 HK$'000	2020 HK$'000
At 1 January	9,506	8,931
Exchange realignment	279	575
At 31 December	9,785	9,506

As at 31 December 2021, government grants of approximately HK$9,785,000 (2020: HK$9,506,000) were designated for certain projects. The amount is stated as a non-current liability as at 31 December 2021 in the consolidated statement of financial position as the directors of the Company are of the opinion that certain conditions in respect of these grants will not be fulfilled within the next twelve months from 31 December 2021.

34. DEFERRED TAX

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

Deferred tax liabilities

	2021				
	Revaluation of investment properties *HK$'000*	Properties held for sale *HK$'000*	Fair value adjustment of financial assets at fair value through other comprehensive income *HK$'000*	Lease arrangement *HK$'000*	Total *HK$'000*
At 1 January 2021	648	30,783	6,276	131	37,838
Deferred tax credited to the statement of profit or loss during the year *(note 10)*	–	–	–	(10)	(10)
Deferred tax charged to capital reserve	–	–	11,550	–	11,550
Exchange realignment	20	901	185	4	1,110
At 31 December 2021	668	31,684	18,011	125	50,488

34. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	2020				
	Revaluation of investment properties HK$'000	Properties held for sale HK$'000	Fair value adjustment of financial assets at fair value through other comprehensive income HK$'000	Lease arrangement HK$'000	Total HK$'000
At 1 January 2020	74,117	–	–	–	74,117
Deferred tax (credited)/charged to the statement of profit or loss during the year *(note 10)*	(13,563)	(14,738)	–	124	(28,177)
Deferred tax charged to capital reserve	–	–	6,276	–	6,276
Disposal of a subsidiary	(17,595)	–	–	–	(17,595)
Transfer	(46,332)	46,332	–	–	–
Exchange realignment	4,021	(811)	–	7	3,217
At 31 December 2020	648	30,783	6,276	131	37,838

Deferred tax assets

	2020			
	Fair value adjustments of financial assets at fair value through other comprehensive income HK$'000	Losses available for offsetting against future taxable profits HK$'000	Impairment of trade and other receivables HK$'000	Total HK$'000
At 1 January 2020	4,990	–	–	4,990
Deferred tax charged to capital reserve	(5,312)	–	–	(5,312)
Exchange realignment	322	–	–	322
At 31 December 2020	–	–	–	–

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34. DEFERRED TAX *(Continued)*

Deferred tax assets *(Continued)*

Deferred tax assets have not been recognised in respect of the following items:

	2021	2020
	HK$'000	*HK$'000*
Tax losses	**560,258**	538,236
Deductible temporary differences	**716,734**	651,926
	1,276,992	1,190,162

The above tax losses are available for a maximum of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

At 31 December 2021, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and joint ventures established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries and joint ventures will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and joint ventures in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$116,124,000 at 31 December 2021 (2020: HK$179,429,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. SHARE CAPITAL

Shares

	2021	2020
	HK$'000	*HK$'000*
Issued and fully paid:		
4,526,925,000 (2020: 4,526,925,000) ordinary shares of US$0.01 each	**353,043**	353,043

36. SHARE AWARD SCHEME

On 15 January 2020 ("Adoption Date"), the Board approved the adoption of a share award scheme (the "Share Award Scheme") with the objective to attract, retain and incentivise key employees, executive officers, directors and consultants of the Company and its subsidiaries to retain them for the continual operations and development of the Group. Bank of Communications Trustee Limited (the "Trustee") was designated to be the trustee under the Deed of trust executed on 1 April 2020.

The Board implements the Share Award Scheme in accordance with the terms of the Share Scheme Rules ("Scheme Rules") including providing necessary funds to the Trustee to purchase or subscribe for shares up to 2.98% of the issued share capital of the Company from time to time.

Pursuant to the Scheme Rules, the Board may, from time to time, at their absolute discretion select the eligible persons to participate in the Share Award Scheme and determine the number of shares to be awarded ("Award Shares") to the selected participants. The Board shall have the power to impose any conditions on the rights of selected participants to the Award Shares when deemed appropriate.

The Trustee shall hold such Award Shares on trust for the selected participants until they are vested. When the relevant selected participants have satisfied all vesting conditions specified by the Board at the time of making the award and become entitled to the Award Shares, the Trustee shall transfer the relevant Award Shares to the grantees.

During the year ended 31 December 2020, based on the Company's instructions, the Trustee has purchased a total of 135,000,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK$0.053 to HK$0.059 per share at a total consideration of HK$7,676,000.

During the year ended 31 December 2021, based on the Company's instructions, the Trustee has purchased a total of 46,808,000 ordinary shares of the Company on the Stock Exchange at prices ranging from HK$0.074 to HK$0.082 per share at a total consideration of HK$3,791,000.

Set out below is a summary of all the grants of Award Shares under the Share Award Scheme since the Adoption Date up to and including 31 December 2021 and 31 December 2020:

Year ended 31 December 2021

Date of grant	Outstanding at 1 January 2021	Vested during the year	Lapsed during the year	Outstanding at 31 December 2021
Directors				
7 July 2020	22,000,000	(20,000,000)	(2,000,000)	–
Employees				
7 July 2020	34,000,000	(34,000,000)	–	–
Others				
16 September 2020	4,000,000	(4,000,000)	–	–
	60,000,000	(58,000,000)	(2,000,000)	–
Exercisable at the end of year				–
Weighted average exercise price	–	–	–	–

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36. SHARE AWARD SCHEME *(Continued)*

Year ended 31 December 2020

Date of grant	Outstanding at 1 January 2020	Granted during the year	Lapsed during the year	Outstanding at 31 December 2020
Directors				
7 July 2020	–	32,000,000	(10,000,000)	22,000,000
Employees				
7 July 2020	–	88,000,000	(54,000,000)	34,000,000
Others				
16 September 2020	–	4,000,000	–	4,000,000
	–	124,000,000	(64,000,000)	60,000,000
Exercisable at the end of year				60,000,000
Weighted average exercise price	–	–	–	–

The fair value of the shares granted was calculated based on the market prices of the Company's shares at the respective grant dates. No dividend will be considered. The fair values of the shares granted on 7 July 2020 and 16 September 2020 were HK$0.075 and HK$0.105 per share, respectively. During 2020, the Group recognised a net expense relating to the Share Award Scheme of approximately HK$4,620,000 in the consolidated statement of profit or loss during the year (note 6).

During the year, 2,000,000 shares lapsed due to the voluntary waiver under the Share Award Scheme. 58,000,000 shares with a total amount of HK$3,298,000 were vested and exercised under the Share Award Scheme, resulting in the transfer out of HK$4,466,000 from the share award reserve, with the difference of HK$1,168,000 debited to the share premium account. The weighted average share price at the date of exercise of these shares was HK$0.085.

37. OTHER RESERVES

The amounts of the Group's other reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(a) Statutory reserve

In accordance with the relevant regulations in the PRC and joint venture agreements, each of the Sino-foreign joint ventures established in the PRC shall set aside a portion of its profit after tax, if any, to the statutory reserve. Such amount will be determined at the discretion of the board of directors of each entity.

37. OTHER RESERVES *(Continued)*

(b) Contributed surplus

Contributed surplus represents the cancellation of the paid-up capital and the set-off against the accumulated losses in prior years.

(c) Special reserve

Special reserve represents the reserve arising from the acquisition of non-controlling interests.

(d) Capital reserve

Capital reserve represents the deemed contribution from a substantial shareholder arising from the waiver of the convertible notes and the fair value changes in equity investments designated at fair value through other comprehensive income.

38. DISPOSALS OF SUBSIDIARIES

On 26 March 2021, HYY, an indirect wholly owned subsidiary of the Company, disposed 100% of the equity interest in HYY Science and Technology Development Group Xinyi Co., Ltd. for a cash consideration of RMB25,830,800 (equivalent to HK$30,562,000).

	Notes	*HK$'000*
Net assets disposed of:		
Deposits paid for acquisitions of land use rights	*16*	15,874
Properties held for sales	*22*	16,498
Trade and bills payables		(39)
Other payables and accruals		(3,859)
Tax payable		(3,124)
		25,350
Exchange fluctuation reserve		(101)
Gain on disposal of a subsidiary	*5*	5,313
Satisfied by:		
Cash		30,562

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

	HK$'000
Cash consideration	30,562
Cash and bank balances disposed of	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	30,562

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38. DISPOSALS OF SUBSIDIARIES *(Continued)*

On 1 April 2021, the Group lost control in Zhejiang Wanhe, which became a joint venture of the Group. Further details in note 18.

	Notes	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	*13*	10,583
Other intangible assets	*17*	364
Trade and bills receivables		6,260
Prepayments, other receivables and other assets		3,020
Cash and cash equivalents		657
Trade and bills payables		(355)
Other payables and accruals		(7,695)
Interest-bearing bank borrowings	*39*	(11,832)
Tax payable		(22)
Non-controlling Interests		(516)
		464
Satisfied by:		
Investment in a joint venture		464

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

	HK$'000
Cash consideration	–
Cash and bank balances disposed of	(657)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(657)

On 15 May 2020, HYY Investment Management Co., Ltd., an indirect wholly owned subsidiary of the Company, disposed 100% of the equity interest in Goodway (Hangzhou) Biotechnology Ltd. For a cash consideration of RMB143,993,000 (equivalent to HK$171,094,000), cash consideration not received and included in prepayments, deposits and other receivables as at 31 December 2021 was HK$9,776,000 (2020: HK$52,272,000). Cash consideration of HK$44,031,000 was received in 2021.

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

2021	**Lease liabilities**	**Interest-bearing bank and other borrowings**	**Amounts due to related companies**
	HK$'000	***HK$'000***	***HK$'000***
At 1 January 2021	**95,479**	**100,998**	**–**
Changes from financing cash flows	**(10,528)**	**(91,732)**	**–**
Disposal of a subsidiary	**–**	**(11,832)**	**–**
Accretion of interest recognised during the year	**4,253**	**–**	**–**
Exchange realignment	**3,461**	**2,566**	**–**
At 31 December 2021	**92,665**	**–**	**–**

2020	Lease liabilities	Interest-bearing bank and other borrowings	Amounts due to related companies
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2020	2,159	6,140	442,404
Changes from financing cash flows	(10,558)	94,462	(475,285)
Accretion of interest recognised during the year	3,565	–	–
New leases	95,542	–	–
Cancellation of lease contracts	(1,010)	–	–
Exchange realignment	5,781	396	32,881
At 31 December 2020	95,479	100,998	–

Note: During the year ended 31 December 2020, the Group had non-cash reductions to interest-bearing other borrowings and additions to amounts due to a related company of RMB400,000,000 (equivalent to HK$442,404,000) and RMB400,000,000 (equivalent to HK$442,404,000).

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2021	2020
	HK$'000	*HK$'000*
Within operating activities	**274**	434
Within financing activities	**10,528**	10,558
	10,802	10,992

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40. CONTINGENT LIABILITIES

At 31 December 2021, the Group did not have any contingent liabilities not provided for in the financial statements (2020: Nil).

41. PLEDGE OF ASSETS

Details of the Group's assets pledged for its operation as at 31 December 2021 and 2020 are included in note 13 to the financial statements.

42. COMMITMENTS

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

	2021	2020
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Capital contributions payable to an associate	**612**	594

43. RELATED PARTY TRANSACTIONS

(a) Amounts due from/to related companies, associates and a joint venture are included in the consolidated statement of financial position. Further details are given in notes 26 and 27 to the financial statements.

(b) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		2021	2020
	Notes	***HK$'000***	*HK$'000*
Associates:			
Purchases of products		**40,404**	66,900
Rental income		**275**	175
Patent right income		**–**	2,422
Other related parties:			
Deposit cash*	*(i)*	**–**	22
Rental expense*		**–**	11
Guarantee fee*	*(ii)*	**100**	1,729
Interest expense*	*(iii)*	**–**	9,332

43. RELATED PARTY TRANSACTIONS *(Continued)*

(b) *(Continued)*

Notes:

(i) The Group entered into a financial service agreement with a subsidiary of CECEP and the outstanding deposit balance was HK$22,000 as at 31 December 2020. The financial service agreement expired at 31 December 2021.

(ii) The Group had a guarantee fee payable to CECEP. Details are given in note 32 to the financial statements.

(iii) The other loan of the Group guaranteed by CECEP was due on 13 September 2019, and because of the tight cash flows of the Group, CECEP repaid this loan on behalf of the Group and the Group has committed to pay the principal and interest expense to CECEP in 2019 and 2020.

The above related party transactions were conducted in accordance with the terms mutually agreed between the parties.

* These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

(c) Other transactions with related parties:

On 30 March 2020, a subsidiary of the Group entered into a two-year lease agreement ending 30 March 2022 with Beijing Elite Investments Limited, as lessor, a company held as to 50% equity interests by Ms. Chan Wai Kay, Katherine, Deputy Chairman and an executive Director of the Company. At 31 December 2021, the right-of-use assets and lease liabilities related to this lease arrangement were HK$178,000 (2020: HK$892,000) and HK$194,000 (2020: HK$949,000), respectively.

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

	2021	2020
	HK$'000	*HK$'000*
Short term employee benefits	**13,038**	14,508
Post-employment benefits	**54**	54
Equity-settled share option expense	**–**	1,650
Total compensation paid to key management personnel	**13,092**	16,212

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

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44. FINANCIAL INSTRUMENTS BY CATEGORY

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

2021

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such *HK$'000*	Equity investments *HK$'000*	Financial assets at amortised cost *HK$'000*	Total *HK$'000*
Equity investments designated at fair value through other comprehensive income	–	354,576	–	354,576
Financial assets included in prepayments, other receivables and other assets	–	–	71,429	71,429
Trade and bills receivables			145,985	145,985
Amounts due from related companies	–	–	567	567
Financial assets at fair value through profit or loss	41	–	–	41
Time deposits	–	–	698	698
Restricted cash	–	–	2,391	2,391
Cash and cash equivalents	–	–	87,069	87,069
	41	354,576	308,139	662,756

44. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2021

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Trade and bills payables	**246,441**
Financial liabilities included in other payables and accruals	**170,293**
Amounts due to associates	**15,584**
Amounts due to a joint venture	**702**
Amounts due to related companies	**31,334**
Lease liabilities	**92,665**
	557,019

2020

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such *HK$'000*	Equity investments *HK$'000*	Financial assets at amortised cost *HK$'000*	Total *HK$'000*
Equity investments designated at fair value through other comprehensive income	–	299,408	–	299,408
Financial assets included in prepayments, other receivables and other assets	–	–	184,739	184,739
Trade and bills receivables	–	–	197,845	197,845
Amounts due from related companies	–	–	551	551
Financial assets at fair value through profit or loss	34	–	–	34
Time deposits	–	–	233	233
Restricted cash	–	–	7,326	7,326
Cash and cash equivalents	–	–	63,172	63,172
	34	299,408	453,866	753,308

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44. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2020

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Trade and bills payables	279,912
Financial liabilities included in other payables and accruals	193,291
Amounts due to associates	17,891
Amounts due to related companies	30,341
Interest-bearing bank borrowings	100,998
Lease liabilities	95,479
	717,912

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, the current portion of trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, and amounts due from/to related companies, associates and a joint venture approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

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

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

The fair values of the non-current portion of trade receivables have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2021 were assessed to be insignificant.

The fair values of listed equity investments are based on quoted market prices. In 2020, the fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as price to book ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by a book measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding book measure of the unlisted equity investments to measure the fair value.

Set out below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2020:

	Value technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments	Valuation multiples	Average P/B multiple of peers	2020: 0.6 to 2.9	10% increase/decrease in multiple would result in increase/decrease in fair value by HK$23,898,000
		Discount for lack of marketability and control	2020: 16%	10% increase/decrease in discount would result in decrease/increase in fair value by HK$4,552,000

The discount for lack of marketability and control represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investments.

In 2021, the fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated based on the most recent transaction price for the given unlisted equity investment, the directors verify whether the most recent transaction price is a negotiated, arms-length transaction price that is indicative of the price that would be arrived between two willing unaffiliated market participants.

The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

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45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Equity investments designated at fair value through other comprehensive income	**64,703**	**289,873**	**–**	**354,576**
Financial assets at fair value through profit or loss	**41**	**–**	**–**	**41**
	64,744	**289,873**	**–**	**354,617**

As at 31 December 2020

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments designated at fair value through other comprehensive income	60,577	–	238,831	299,408
Financial assets at fair value through profit or loss	34	–	–	34
	60,611	–	238,831	299,442

45. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2021 (2020: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2020: Nil), the fair values measurements category of unlisted equity investments designated at fair value through other comprehensive income was transferred out of Level 3 and into level 2 (2020: Nil).

The movements in fair value measurements within Level 3 during the year are as follows:

	2021	2020
	HK$'000	*HK$'000*
Equity investments designated at fair value through other comprehensive income – unlisted		
At 1 January	**238,831**	179,732
Transferred out of Level 3	**(238,831)**	–
Total gains recognised in other comprehensive income	**–**	47,529
Exchange realignment	**–**	11,570
At 31 December	**–**	238,831

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46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise equity investments at fair value through other comprehensive income and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

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

Foreign currency risk

The Group's PRC subsidiaries transact in RMB, and the Company and other subsidiaries mainly transact in HK$. Management considers the Group's exposure to foreign currency risk is not significant.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

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

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Restricted cash					
– Not yet past due	2,391	–	–	–	2,391
Time deposits					
– Not yet past due	698	–	–	–	698
Contract assets*	–	–	–	574,700	574,700
Trade and bills receivables*	–	–	48,888	262,114	311,002
Cash and cash equivalents					
– Not yet past due	87,069	–	–	–	87,069
Financial assets included in prepayments, other receivables and other assets**					
– Normal**	19,001	–			19,001
– Doubtful**	138,166	–	–	–	138,166
	247,325	–	48,888	836,814	1,133,027

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Maximum exposure and year-end staging *(Continued)*

As at 31 December 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Restricted cash					
– Not yet past due	7,326	–	–	–	7,326
Time deposits					
– Not yet past due	233	–	–	–	233
Contract assets*	–	–	–	567,682	567,682
Trade and bills receivables*	–	–	–	321,310	321,310
Cash and cash equivalents					
– Not yet past due	63,172	–	–	–	63,172
Financial assets included in prepayments, other receivables and other assets**					
– Normal**	142,373	–	–	–	142,373
– Doubtful**	123,206	–	–	–	123,206
	336,310	–	–	888,992	1,225,302

* For trade and bills receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 24 and 23 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

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46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk

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

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

Group	2021				
	On demand	**Within one year**	**One to five years**	**Over five years**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Lease liabilities	–	**9,957**	**40,549**	**66,473**	**116,979**
Trade and bills payables	–	**246,411**	–	–	**246,411**
Financial liabilities included in other payables and accruals	**170,293**	–	–	–	**170,293**
Amounts due to related companies	**31,334**	–	–	–	**31,334**
Amounts due to a joint venture	**702**	–	–	–	**702**
Amounts due to associates	**15,584**	–	–	–	**15,584**
	217,913	**256,368**	**40,549**	**66,473**	**581,303**

Group	2020				
	On demand	Within one year	One to five years	Over five years	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Lease liabilities	–	10,081	38,938	74,711	123,730
Interest-bearing bank borrowings	–	100,998	–	–	100,998
Trade and bills payables	–	279,912	–	–	279,912
Financial liabilities included in other payables and accruals	193,291	–	–	–	193,291
Amounts due to related companies	30,341	–	–	–	30,341
Amounts due to associates	17,891	–	–	–	17,891
	241,523	390,991	38,938	74,711	746,163

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments at fair value through other comprehensive income (note 20) and equity investments at fair value through profit or loss (note 28) as at 31 December 2021.

The following table demonstrates the sensitivity to every 5% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the equity investments at fair value through other comprehensive income, the impact is deemed to be on the capital reserve and no account is given for factors such as impairment which might impact the statement of profit or loss.

2021	**Carrying amount of equity investments** *HK$'000*	**Change in equity** *HK$'000*	**Change in profit before tax** *HK$'000*
Unlisted investments at fair value:			
– Equity investments at fair value through other comprehensive income	**289,873**	**14,494**	**–**
Investments listed in:			
Hong Kong- Equity investments at fair value through profit or loss	**41**	**–**	**2**
Others- Equity investments at fair value through other comprehensive income	**64,703**	**3,235**	**–**

2020	Carrying amount of equity investments *HK$'000*	Change in equity *HK$'000*	Change in profit before tax *HK$'000*
Unlisted investments at fair value:			
– Equity investments at fair value through other comprehensive income	238,831	11,942	–
Investments listed in:			
Hong Kong- Equity investments at fair value through profit or loss	34	–	2
Others- Equity investments at fair value through other comprehensive income	60,577	3,029	–

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2021 and 31 December 2020.

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46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes interest-bearing bank and other borrowings, lease liabilities, trade and bills payables, financial liabilities included in other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2021 *HK$'000*	31 December 2020 *HK$'000*
Interest-bearing bank and other borrowings	–	100,998
Lease liabilities	**92,665**	95,479
Trade and bills payables	**246,441**	279,912
Financial liabilities included in other payables and accruals	**170,293**	193,291
Less: Cash and cash equivalents	**(87,069)**	(63,172)
Net debt	**422,330**	606,508
Equity attributable to owners of the parent	**401,994**	448,428
Capital and net debt	**824,324**	1,054,936
Gearing ratio	**51.2%**	57.5%

47. EVENTS AFTER THE REPORTING PERIOD

In November 2021, Ever Source Investment received a civil complaint from Shanghai Gangze Trading Co,. Ltd. ("Shanghai Gangze") against Ever Source Investment and Beijing Rungu Investment CO,. Ltd. ("Beijing Rungu"), requesting Beijing First Intermediate People's Court to (i) order the cancellation of the Equity Transfer Agreement and the Supplemental Equity Transfer Agreement; (ii) order Ever Source Investment to return the equity transfer amount of RMB237,000,000 to Shanghai Gangze and compensate for the provisional interest loss of RMB8,217,995.83, totaling RMB245,217,995.83; (iii) order Beijing Rungu to bear joint and several liabilities for the aforementioned interest loss; and (iv) order Ever Source Investment and Beijing Rungu to bear the litigation costs, preservation fees and preservation guarantee fees for the case.

In January 2022, Ever Source Investment was notified by Beijing Life that they received a notice of assistance in enforcement and a civil ruling issued by the Beijing First Intermediate People's Court. According to the civil ruling, the court ruled to implement the assets preservative measures applied by Shanghai Gangze (as the applicant) against Ever Source Investment (as the respondent) and Beijing Rungu (as the respondent) by freezing the bank deposits or seizure and impounding the assets with the equivalent sum that held by Ever Source Investment and Beijing Rungu respectively. The limits imposed on Ever Source Investment and Beijing Rungu are RMB245,217,995.83 and RMB8,217,995.83 respectively. In addition, according to the notice of assistance in enforcement, Beijing Life is required to assist in freezing the 4.99965% equity interest of Beijing Life held by Ever Source Investment, corresponding to the paid-up capital of RMB142,990,000, for 3 years commencing from 12 January 2022 to 11 January 2025. During the freezing period, transfer, sale and pledge of the above equity interests are prohibited without the permission of the court. At the reporting date, Ever Source Investment's bank account with Beijing Rural Commercial Bank has been frozen with the amount of RMB50,288.

The Company considered that the above court ruling has no significant adverse effect on the normal operation and financial of the Group. The Company will vigorously respond to the litigation and will make further announcement(s) to keep its shareholders and investors informed of any significant development of the litigation as and when appropriate

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2021	2020
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	–	–
Total non-current assets	–	–
CURRENT ASSETS		
Amounts due from subsidiaries	**403,838**	538,892
Prepayments, other receivables and other assets	**159**	–
Restricted cash	**343**	275
Cash and cash equivalents	**323**	180
Total current assets	**404,663**	539,347
NET CURRENT ASSETS	**404,663**	539,347
TOTAL ASSETS	**404,663**	539,347
Net assets	**404,663**	539,347
EQUITY		
Share capital	**353,043**	353,043
Shares held for Share Award Scheme	**(8,169)**	(7,676)
Other reserves *(note)*	**59,789**	193,980
Total equity	**404,663**	539,347

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48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

A summary of the Company's other reserves is as follows:

	Share premium	Contributed surplus	Share option reserve/share award reserve	Capital reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2020	894,225	154,381	49,117	32,235	(816,202)	313,756
Total comprehensive loss for the year	–	–	–	–	(124,396)	(124,396)
Equity-settled share option arrangements	–	–	4,620	–	–	4,620
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	(49,117)	–	49,117	–
At 31 December 2020 and 1 January 2021	894,225	154,381	4,620	32,235	(891,481)	193,980
Total comprehensive loss for the year	–	–	–	–	(130,893)	(130,893)
Shares vested under Share Award Scheme	1,168	–	(4,466)	–	–	(3,298)
Transfer of share option reserve upon the forfeiture or expiry of share options	–	–	(154)	–	154	–
At 31 December 2021	895,393	154,381	–	32,235	(1,022,220)	59,789

The share option reserve/share award reserve comprise the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to accumulated losses should the related options expire or be forfeited.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2022.

Five-Year Financial Summary

A summary of the published results and the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, are set out below.

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2021	2020	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**176,835**	230,862	345,537	396,793	778,153
Cost of sales and services	**(145,595)**	(184,728)	(261,559)	(379,670)	(614,244)
Gross profit	**31,240**	46,134	83,978	17,123	163,909
Gross profit margin	**18%**	20%	24%	4%	21%
(Loss)/profit before tax	**(100,904)**	(240,248)	(406,844)	(419,067)	16,023
Income tax (expense)/credit	**(1,423)**	(3,192)	(38,179)	556	(12,061)
(Loss)/profit for the year	**(102,327)**	(243,440)	(445,023)	(418,511)	3,962
Attributable to:					
– Owners of the parent	**(97,329)**	(242,399)	(441,039)	(410,297)	10,533
– Non-controlling interests	**(4,998)**	(1,041)	(3,984)	(8,214)	(6,571)
(Loss)/earnings per share					
– Basic (HK cents)	**(2.20)**	(5.46)	(10.59)	(10.19)	0.30
– Diluted (HK cents)	**(2.20)**	(5.46)	(10.59)	(10.19)	0.30

CONSOLIDATED ASSETS AND LIABILITIES

	2021	2020	2019	2018	2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**588,249**	636,707	1,380,996	1,770,461	1,974,571
Current assets	**977,383**	1,083,854	574,672	723,203	1,125,694
Current liabilities	**(990,443)**	(1,106,453)	(1,199,462)	(1,313,484)	(837,135)
Net current (liabilities)/assets	**(13,060)**	(22,599)	(624,790)	(590,281)	288,559
Total assets less current liabilities	**575,189**	614,108	756,206	1,180,180	2,263,130
Non-current liabilities	**(147,009)**	(136,934)	(92,101)	(95,318)	(576,100)
Net assets	**428,180**	477,174	664,105	1,084,862	1,687,030
Total debt to equity ratio	**2.66**	2.61	1.94	1.30	0.84

List of Major Properties Held by the Group

Location	Approximate gross floor area (square meter)	Group's interest	Land use	Term of lease	Stage of completion	Anticipated completion
Building						
No. 102 Xingshikou Road, Haidian District, Beijing, the PRC	5,628.82	100%	Office and industrial	Medium	Completed	–
Investment property						
Headquarter Block Nos. 026 and 027 office building, Jinjialin Village, Chengjiao Township, Fucheng District, Mianyang City, Sichuan Province, the PRC	19,610.06	100%	Office	Medium	Completed	–
Properties held for sale						
Xianyuwan Village, Xianyuwan Town, Wafangdian City, Dalian, Liaoning Province, the PRC	173,289.00	100%	Residential	Medium	Planning in progress	December 2022