中國恒有源發展集團有限公司

CHYY DEVELOPMENT GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8128

ANNUAL REPORT

2023

Technology and Resources Links

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of CHYY Development Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules") of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Xu Shengheng *(Chairman)*
Chan Wai Kay Katherine *(Deputy Chairman)*
Dai Qi
*Zhang Wei

Non-executive directors

Yang Wei (Resigned on 5 July 2023)
Liao Yuan (Appointed on 5 July 2023)
Liu Ening
Zhang Yiying

Independent non-executive directors

Wu Desheng (Resigned on 4 November 2023)
Wu Qiang
Jia Wenzeng (Resigned on 4 November 2023)
Guan Chenghua
Zhang Honghai (Appointed on 10 November 2023)

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

8/F., Chung Hing Commercial Building
62-63 Connaught Road Central
Central
Hong Kong

AUTHORISED REPRESENTATIVES

Xu Shengheng
Kei Siu Ying (Resigned on 17 November 2023)
Chen Ning (Appointed on 24 November 2023)

COMPLIANCE OFFICER

Xu Shengheng

COMPANY SECRETARY

Kei Siu Ying (Resigned on 17 November 2023)
Chen Ning (Appointed on 24 November 2023)

AUDIT COMMITTEE

Zhang Honghai (Appointed as Chairman on 10 November 2023)
Jia Wenzeng (Resigned on 4 November 2023)
Wu Desheng (Resigned on 4 November 2023)
Wu Qiang
Guan Chenghua

REMUNERATION COMMITTEE

Guan Chenghua *(Chairman)*
Dai Qi *(Deputy Chairman)*
Xu Shengheng *(Deputy Chairman)*
Wu Desheng (Resigned on 4 November 2023)
Jia Wenzeng (Resigned on 4 November 2023)
Wu Qiang
Zhang Honghai (Appointed on 10 November 2023)

NOMINATION COMMITTEE

Guan Chenghua (Appointed as Chairman on 10 November 2023)
Wu Desheng (Resigned on 4 November 2023)
Xu Shengheng *(Deputy Chairman)*
Liao Yuan (Appointed as Deputy Chairman on 5 July 2023)
Yang Wei (Resigned on 5 July 2023)
Jia Wenzeng (Resigned on 4 November 2023)
Wu Qiang
Zhang Honghai (Appointed on 10 November 2023)

GROUP DEVELOPMENT STRATEGIC COMMITTEE

Wu Qiang *(Chairman)*
Xu Shengheng *(Deputy Chairman)*
Chan Wai Kay Katherine *(Deputy Chairman)*
Yang Wei (Resigned on 5 July 2023)
Liao Yuan (Appointed as Deputy Chairman on 5 July 2023)
Dai Qi
Wu Desheng (Resigned on 4 November 2023)
Jia Wenzeng (Resigned on 4 November 2023)
Guan Chenghua
Zhang Yiying
Liu Ening
Zhang Honghai (Appointed on 10 November 2023)
Sun Ji
*Zhang Wei

* Mr. Zhang Wei was appointed as an Executive Director and the member of Group Development Strategic Committee with effect from 28 March 2024.

Corporate Information

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

CL Partners CPA Limited
Certified Public Accountants
Registered Public Interest Entity Auditors
3203A-5, 32/F, Tower 2, Lippo Centre
Admiralty, Hong Kong

STOCK CODE

8128

COMPANY WEBSITE

www.chyy.com.hk

Chairman’s Statement

Dear Shareholders,

On behalf of the board (the “Board”) of directors (the “Director(s)”) of CHYY Development Group Limited (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 2023 (the “Year”).

The Group’s revenue for the Year amounted to approximately HK$67,860,000, a decrease of approximately 43.18% as compared to the same period in 2022. The Group recorded a profit of approximately HK$4,722,000 for the Year, which turned from losses into profits as compared with significant loss in 2022. The main reason for the decreases in the revenue scale and turning from losses into profits was recovery of impairment loss on previous contract assets during the year.

In 2023, the Company significantly reduced its losses compared to the same period and achieved a turnaround, reflecting the improvement in the Company's operating conditions, which was mainly attributable to the Group's continuous strengthening of management based on independent item accounting and enhanced efforts in recovering accounts receivable.

After more than 20 years of engineering model exploration before the epidemic, the Group has collected geothermal energy according to local conditions and provided matching heating heat pump units to ensure that geothermal heat pumps provide combustion-free heating in northern winter. During the epidemic, the Group has improved and standardized low-temperature geothermal energy collection systems and geothermal heat pump environmental systems with complete sets of equipment of various specifications. Based on Ever Source Science and Technology, a wholly-owned subsidiary in Beijing, the northern winter geothermal heat pump non-combustion heating operation and maintenance center for the integrated heating and cooling industry has been established to support the mainland services. According to the mid– and long-term regional plan for geothermal heat pump non-combustion heating in northern winter formulated with government support, and in cooperation with regional key enterprises, we have gradually realized the in-depth upgrade of the northern winter heating industry from the traditional combustion heating industry to geothermal heat pump non-combustion heating after the epidemic, ensuring that residents can have a warm winter that meets national standard heating temperatures under the harshest climate conditions. Under the “Carbon Peaking and Carbon Neutrality” goals, the Group has achieved the heating cost of coal-fired heating, half of the fossil energy consumption of traditional combustion heating methods, and guaranteed 100% of the original heating area.

The low-temperature geothermal energy of geothermal heat pump non-combustion heating in northern winter comes from the joint action of the sun and the earth’s core, and is stored in the earth with a certain temperature in a certain depth. The Group has collected a wide range of geothermal energy that are less than three feet deep in an environmentally friendly manner based on local conditions, and provided geothermal energy to heating heat pump units to transport low-temperature heat to maintain an ambient temperature of around 20 degrees that is suitable for the human body, which is normally no higher than 37 degrees.

During the special period in 2023 and before, the operation and management team led all staff to work together to overcome various difficulties, safe through the epidemic to ensure the heating supply, repay loans and resume production. The Group has embarked on a path of healthy and steady development.

In 2024, the Group will continue to be committed to replacing fossil fuel combustion with no higher cost than traditional energy, achieving stable access to electricity that ensures comfortable living for people, the survival and growth of animals and plants, and the appropriate temperature required for the space under the most adverse weather conditions, and providing environmental system design solutions and product sets.

The year 2024 will be the launching year of the Group's accelerated development. We must continue to strengthen our confidence, demonstrate our talents, work hard, seize opportunities, and develop rapidly. We also should fulfill the overall deployment of the Board, put safety first, take the standard as our top priority, lay a solid foundation, focus on implementation, do everything responsibly and work happily every day. In 2024, we will capitalise on the golden period of industry development and, in conjunction with the Group's series of reform measures, we are confident in the Group's future development to maximise the creation and realisation of value for our shareholders and investors. The Group will formally launch a three-year mainboard conversion plan, strengthen three-tier flat management, establish sound and effective management at three levels: the Group, the industries and the independent accounting units, and implement comprehensive budget management, with accurate budgeting on the basis of independent accounting and clear income and expenditure according to the budget to improve efficiency, fulfill responsibilities and promote sales.

We believe that in the coming year, under the leadership of the Board and with the joint efforts of the management team and all of us, we will definitely achieve new results, new developments and share new harvests.

I would like to take this opportunity to renew the assurances of my highest consideration to all the staff and Directors for their long-term contributions and hard work, and sincerely thank all customers, business partners and shareholders for their great support to the Group.

徐生恒

Chairman

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

Income Allocation

	2023		2022	
	HK$'000	**%**	HK$'000	%
1. Shallow geothermal energy utilisation system				
Including: Supply of renewable energy	**–**	**–**	1,065	0.88
Engineering construction	**34,038**	**50.17**	81,697	68.41
Operation and maintenance	**27,160**	**40.02**	26,760	22.41
2. Air conditioning/shallow geothermal heat pump	**1,014**	**1.49**	9,815	8.22
3. Property investment and development	**5,648**	**8.32**	91	0.08
Total revenue	**67,860**	**100**	119,428	100

	2023	2022
	HK$'000	HK$'000
Revenue	**67,860**	119,428
Gross profit	**9,259**	15,121
Profit/(loss) before tax	**7,091**	(157,706)
Profit/(loss) for the year	**4,722**	(135,463)
Research and development costs (included in the administrative expenses)	**1,931**	2,823
Reversal of impairment loss/(impairment loss) on trade receivables, net	**2,378**	(38,289)
Impairment loss on prepayments, other receivables and other assets, net	**(1,897)**	(15,470)
Reversal of impairment loss/(impairment loss) on contract assets, net	**41,599**	(63,323)

As at 31 December 2023 & 2022

	2023	2022
	HK$'000	HK$'000
Current assets	**778,487**	778,554
Total assets	**1,204,899**	1,247,849
Net current liabilities	**(29,308)**	(57,407)
Total equity	**278,590**	284,692

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2023, the profit of the Group amounted to approximately HK$4,722,000 and revenue amounted to HK$67,860,000 as compared with the loss of the Group amounted to HK$135,463,000 and revenue amounted to approximately HK$119,428,000 for the year ended 31 December 2022. For more detailed information, please refer to the consolidated financial statements for the years ended 31 December 2023 and 2022.

OPERATIONAL RESULTS

Total revenue from operations for the year ended 31 December 2023 was approximately HK$67,860,000 as compared with HK$119,428,000 for the year ended 31 December 2022, representing a decrease of approximately 43.18%. 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 2023, the Group recorded a net profit of approximately HK$4,722,000 as compared with a net loss of approximately HK$135,463,000 for the year ended 31 December 2022, mainly due to reversal of impairment loss on contract assets upon recovery of the amounts.

GROSS PROFIT MARGIN

Gross profit from the Group's operations for the year ended 31 December 2023 was approximately HK$9,259,000, represented the gross profit margin of 13.64% (2022: approximately HK$15,121,000, represented the gross profit margin of 12.66%). The Group's gross profit margin for the Year increased by 0.98% compared with the same period last year.

SELLING & DISTRIBUTION EXPENSES

Selling and distribution expenses for this year decreased by approximately HK$124,000 or 4.4% compared with 31 December 2022. The selling and distribution expenses decreased mainly due to the decreased in salaries structure improvement, internal expenses control and cost control, the salaries expenses, travelling expenses and business operation expenses are significant decline.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to approximately HK$52,758,000 and HK$51,670,000 for the years ended 31 December 2023 and 2022 respectively, representing an increase of 2.1%, or a decrease of 4% (excluding the impact of gains and losses from changes in fair value). The decrease in administrative expenses was mainly due to the Group's commitment to continuing to implement the independent project accounting system, strengthening cost control on independent accounting units, and which has strengthened budget management and performance appraisal to greatly reduce expenses including salaries, operation expenses, water and electricity charge and vehicle expense.

OTHER EXPENSES

Other expenses for the year ended 31 December 2023 amounted to approximately HK$3,612,000 (2022: HK$8,120,000). The decrease in 55.5% other expenses for the Year as compared to last year due to the decrease of impairment loss on properties held for sale.

SHARE-BASED PAYMENT EXPENSES

During the year ended 31 December 2023, the Group had incurred share-based payment of HK$962,000 due to share award granted in 2023 (2022: Nil).

Management Discussion and Analysis

ORDER BOOK

As at 31 December 2023, the Group had contracts on hand of approximately HK$75,321,000 (2022: approximately HK$65,540,000).

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, compared with the same period, the decline has been significant, in view of this, the Group will continue to improve product quality, reduce costs and improve market competitiveness according to changes in market needs.

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.

PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group recorded a profit attributable to owners of the Company was approximately HK$9,475,000 for the year ended 31 December 2023 representing an increase in profit by approximately HK$143,807,000 as compared with a loss of approximately HK$134,332,000 for the year ended 31 December 2022. The increase in profit attributable to owners of the Company was mainly attributable to the reversal of impairment loss on trade receivables and contract assets.

FINANCIAL RESOURCES AND LIQUIDITY

Net current liabilities of the Group as at 31 December 2023 was approximately HK$29,308,000 (2022: approximately HK$57,407,000).

As at 31 December 2023, the Group had cash and cash equivalents of approximately HK$69,553,000 (2022: approximately HK$47,043,000). 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 report.

CHARGES OF GROUP ASSETS

As at 31 December 2023, 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 2023, the Group had no foreign exchange contracts.

GEARING RATIO

The gearing ratio of the Group, based on net debt (including lease liabilities, trade payables, financial liabilities included in other payables and accruals, less cash and cash equivalents) to the equity (representing equity attributable to owners of the Company) plus net debt of the Group, was approximately 55.7% as at 31 December 2023 (2022: 60.0%).

EMPLOYEES

As at 31 December 2023, the Group has approximately 218 employees (2022: approximately 306). 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 ("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.

Management Discussion and Analysis

During the years ended 31 December 2023 and 2022, the Company has not purchased any shares under Share Award Scheme.

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 2023 and 2022:

During the year ended 31 December 2023, the Company granted 44,500,000 Award Shares to certain directors and employee of the Group, of which 7,500,000 Award Shares was cancelled.

During the year ended 31 December 2022, the Company did not grant Award Shares.

There were no outstanding of Award Shares as at 31 December 2023 and 2022.

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 12 October 2023 was HK$0.026 per share.

CONTINGENT LIABILITIES

As at 31 December 2023, the Company did not have any contingent liabilities not provided in the consolidated financial statements (2022: Nil).

DIVIDEND

The Board does not recommend the payment of any final dividend for the year ended 31 December 2023 (2022: Nil).

CAPITAL STRUCTURE

As at 31 December 2023, 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.

EVENTS AFTER THE REPORTING PERIOD

(1) In November 2021, Ever Source Investment Management Co,. Ltd.（恒有源投資管理有限公司）("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.

In November 2022, Ever Source Investment received a civil judgement (the "Civil Judgement") in respect of the litigation case No. (2021) Jing 01 Min Chu No.860* ((2021)京01民初860號) from the First Intermediate People's Court of Beijing (the "Beijing Court"). According to the Civil Judgement, the Beijing Court ruled that the Plaintiff Shanghai Gangze shall perform that (i) Shanghai Gangze shall compensate Ever Source Investment for the loss of legal fees of RMB200,000 within 10 days after this judgment takes into effect; and (ii) reject all claims from Shanghai Gangze. If Shanghai Gangze failed to perform its monetary obligation within the period specified in this judgment, it shall pay double the debt interest during the delayed performance period in accordance with the provisions of Article 260 of the Civil Procedure Law of the People's Republic of China. The acceptance fee of the case, the property preservation fee and the acceptance fee of the counterclaim case are all borne by Shanghai Gangze.

In December 2022, Shanghai Gangze filed an appeal and no judgement has been rendered so far, the industrial and commercial registration has not been changed and Ever Source Investment is still a shareholder of Beijing Life.

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.

(2) On 27 October 2023, the Company entered into the agreement (the "Agreement") with GBT Green Energy Holding Group Limited (the "Vendor") and Mr. Wang Chenglin*（王成林）(the "Guarantor"), pursuant to which the Vendor has conditionally agreed to sell and the Company has conditionally agreed to acquire the shares of the Hydrogen Energy Technology Limited (the "Target Company"), a company incorporated in the British Virgin Islands with limited liability, representing 80% of the entire issued share capital of the Target Company, at a maximum total consideration of HK$70,200,000. On 16 March 2024, the Company, the Vendor and the Guarantor entered into a side letter supplemental to the Agreement under which the parties have agreed to revise the terms to the Consideration and the Conditions Precedent under the Agreement.

Upon Completion, the Target Company will become a non wholly-owned subsidiary of the Company, and the financial information of the Target Group will be consolidated into the Group's financial statements.

As at the date of this report, the Target Company indirect wholly-owned China Hydrogen Energy (Shenzhen) New Technology Co., Ltd.*（中氫新能（深圳）新技術有限公司）("China Hydrogen Energy"), a company established in the PRC with limited liability.

China Hydrogen Energy specialises in hydrogen fuel cell powertrain systems for the automobile industry and has independent core technologies and intellectual property in the design, simulation, control, integration, and manufacture of these systems. By leveraging technical advantages and market resources in the renewable energy, hydrogen energy, and fuel cell industry, China Hydrogen Energy aims to develop a complete and efficient hydrogen fuel cell solution provider for the automobile industry. China Hydrogen Energy provides high-reliability and cost-effective hydrogen fuel cell powertrain solutions that meet national standards and application requirements. Currently, China Hydrogen Energy's technical know-how and intellectual properties demonstrate core advantages in (i) integrated and reliable hydrogen fuel cell powertrain systems, (ii) intelligent control systems for hydrogen fuel cell powertrain systems, (iii) low-temperature unassisted quick start technology, and (iv) customised development of cost-effective hydrogen fuel cell powertrain systems for multiple scenarios.

* *For identification purpose only*

Management Discussion and Analysis

On 28 March 2024, the Company, the Vendor and the Guarantor entered into a second side letter pursuant to which the Company, the Vendor and the Guarantor agreed to extend the Long Stop Date from 31 March 2024 to 30 June 2024 (or such later date as the Company, the Vendor Guarantor may agree in writing) as additional time is required for the fulfilment of the Conditions Precedent.

Please refer to the announcements of the Company dated 27 October 2023, 18 March 2024 and 28 March 2024 for detail information.

CAPITAL COMMITMENT

The Group did not incur any significant capital commitment as at 31 December 2023 (2022: nil).

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 2023.

MAJOR ACQUISITIONS AND DISPOSALS

No major acquisitions or disposal transactions during the year.

BUSINESS REVIEW AND OUTLOOK

The Group is mainly engaged in the green renewable shallow geothermal energy supply sector, the green energy heating complete product manufacturing and sales sector, the green energy heating system engineering sector, and the green energy heating service sector. The Group has always adhered to the "single-well circulation heat exchange" method to promote shallow geothermal energy as an alternative energy source for heating. This method uses groundwater as the "medium" to continuously collect shallow low-temperature heat energy within 200 meters underground. By pressurizing through system closure, this technology achieves 100% recharge of groundwater in the same well without affecting the quality of the groundwater, and effectively solves the problem which often arises and has plagued the industry for many years of extracting heat from groundwater in the "one pumping and one filling" or "one pumping and multiple filling" modes. Meanwhile, it directly converts low-grade heat energy in water into high-grade heat energy, which can save more than 60% of electric energy compared with electric heating. The Group will strive to improve people's quality of life and pursue the harmonious symbiosis between human and nature.

The year 2023 was a critical year for the Group's reform. Achieving profitability despite a year-on-year decline in revenue during the Reporting Period reflected the improvement in the Company's operating conditions, mainly due to the Group's continued strengthening of management based on independent project accounting and the strengthening of collection of receivables.

During the period under review, the Group recorded revenue of approximately HK$67,860,000 as compared to approximately HK$119,428,000 for the corresponding period of the previous year. Revenue decreased by approximately HK$51,568,000. The main reasons for the decrease in revenue are as follows:

1. The simultaneous decrease in new engineering project contracts and existing projects under construction during the reporting year has led to a significant decrease in revenue from alternative energy engineering projects.

2. Contracts for the sale of products decreased to varying degrees compared with the same period last year.

During the period under review, the Group gradually improved its business management system, resolved to rise to the challenge, focused on market expansion, project settlement, cost saving and project payment clearance, and made concerted efforts to overcome the difficulties in each of the key tasks.

In the future, the Group will be dedicated to developing the alternative energy industry regarding new energy. The Group will focus on promoting and applying geothermal heat pump environmental systems. These systems use the "single well circulation heat exchange" technology to achieve building heating with no combustion and zero emissions in the use area. These systems provide temperatures suitable for comfortable human life and the survival and growth of animals and plants. The Board expects that the completion of the future acquisition of China Hydrogen Energy will gradually improve the Company's application technology direction towards "developing and utilizing green alternative energy with a cost comparable to traditional energy" and gradually realize the corporate vision of "the development of renewable energy to replace the traditional fossil energy industry: hydrogen energy + geothermal energy (hot)". The Group will continue to be committed to replacing fossil fuel combustion with no higher cost than traditional energy, achieving stable access to electricity that ensures comfortable living for people, the survival and growth of animals and plants, and the appropriate temperature required for the space under the most adverse weather conditions, and providing environmental system design solutions and product sets.

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Xu Shengheng ("Mr. Xu"), aged 61, has been appointed as an executive Director of the Company since 6 February 2009. Mr. Xu is the chairman of the Board of Directors of the Group and an executive Director, the deputy chairman of nomination committee, the deputy chairman of remuneration committee, the deputy chairman of group development strategic 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 from the China University of Geosciences (Beijing) 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.

Ms. Chan Wai Kay Katherine ("Ms. Chan"), aged 64, has been appointed as an executive Director of the Company since 6 February 2009. Ms. Chan is the deputy chairman of the Board and executive Director of the Company and the deputy chairman of group development strategic committee. Ms. Chan holds a Bachelor degree of Business Administration from the University of Southern California, USA. Ms. Chan has more than 30 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.

Mr. Dai Qi ("Mr. Dai"), aged 41, was appointed as a non executive Director of the Company on 12 August 2013 and was redesignated to executive Director since 29 December 2016, Mr. Dai is the deputy chairman of remuneration committee, and a member of group development strategic committee. He currently also serves as the general manager of the Integrated Business Department I of Ever Source Science and Technology Development Group Ltd.*（恆有源科技發展集團有限公司）, a subsidiary of the Group. After joining the Company, he successively served as the administrative director of the Group and the vice president of HYY Development Group. Mr. Dai holds a master's degree from Southwest Jiaotong University（西南交通大學）. 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).

Mr. Zhang Wei ("Mr. Zhang"), aged 50, has been appointed as an executive Director of the Company since 28 March 2024. Mr. Zhang is a member of group development strategic committee of the Company. Mr. Zhang is currently the chief security officer of CHYY Development Group Limited, deputy general manager of the Group's geothermal industry and executive deputy manager of the operation and maintenance center, chairman of Ever Source Science and Technology Development Group Co., Ltd.* (恆有源科技發展集團有限公司) and chief engineer of Ever Source Ground Energy Heating and Cooling Technology Service Company* (恆有源地能熱冷技術服務公司). After joining the Company, he has successively served as executive vice president, deputy chief engineer and chief safety officer of CHYY Development Group Limited, deputy general manager and engineering center deputy general manager of Ever Source Science & Technology Development Group Co., Ltd.*（恆有源科技發展集團有限公司）, and deputy general manager of Ever Source Ground Energy Heating and Cooling Technology Service Company*（恆有源地能熱冷技術服務公司）, general manager of Beijing Ever Source Environmental System Installation Limited*（北京恆有源環境系統設備安裝工程有限公司）, and general manager of Ever Source Technology Development Group Pizhou Co., Ltd.*（恆有源科技發展集團邳州有限公司）. Mr. Zhang holds a degree in Agricultural and Water resources from China Agricultural University and a title of engineer. Mr. Zhang has served as deputy chief officer of Beijing feng tai district water bureau（北京市豐台區水務局）, a general manager of Lingnan water group company limited（嶺南水務集團有限責任公司）and a general manager of Haimian city investment company Limited（海綿城市投資有限公司）. Mr. Zhang is currently also a director of certain subsidiaries of the Company.

NON-EXECUTIVE DIRECTORS

Ms. Liu Ening ("Ms. Liu"), aged 44, has been appointed as an non-executive Director of the Company since 12 March 2021. Ms. Liu is a member of group development strategic committee of the Company. She acted as an alternate Director to 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.

Mr. Zhang Yiying ("Mr. Zhang"), aged 51, has been appointed as a non-executive Director of the Company since 16 January 2020. Mr. Zhang is a member of group development strategic committee of the Company. 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.

Mr. Liao Yuan ("Mr. Liao"), aged 53, has been appointed as a non-executive Director of the Compnay since 5 July 2023. Mr. Liao is the deputy chairman of nomination committee, and the deputy chairman of group development strategic committee of the Company. Mr. Liao is a senior Accountant, and holds a bachelor's degree in Human Resources from BEIJING JIAOTONG UNIVERSITY*（北京交通大學）and a master's degree in Business Administration from DONGBEI UNIVERSITY OF FINANCE & ECONOMICS*（東北財經大學）. Mr. Liao has been worked in COFCO Corporation*（中穀糧油集團公司）and CHINA LIGHT INDUSTRIAL CORPORATION FOR FOREIGN ECONOMIC AND TECHNICAL CO-OPERATION*（中國輕工業對外經濟技術合作公司）. Mr. Liao joined China Energy Conservation and Environmental Protection Group since 2009, he successively served as the Officer of the Comprehensive Finance Department and the Deputy Chief Accountant of Zhonggie Blue Sky Investment Consulting Management Company Limited*（中節藍天投資諮詢管理有限責任公司）and the Deputy General Manager, the Officer of the Operation Department and General Manager of China Energy Conservation Consulting Company Limited*（中節能諮詢有限公司）. Since 2020, he successively worked in China Energy Conservation and Environmental Protection Ecological Products Development Research Center Company Limited*（中節能生態產品發展研究中心有限公司）, China Energy Conservation and Environmental Protection Green Development Research Institute*（中節能綠色發展研究院）, China Energy Conservation and Environmental Protection Consulting Company Limited*（中節能諮詢有限公司）and China Energy Conservation and Environmental Protection Carbon Peak Carbon Neutrality Research Institute*（中節能碳達峰碳中和研究院）. Currently, he is the General Manager of China Energy Conservation and Environmental Protection Ecological Products Development Research Center Company Limited*（中節能生態產品發展研究中心有限公司）, the Executive Dean of China Energy Conservation and Environmental Protection Green Development Research Institute*（中節能綠色發展研究院）and the Executive Dean of China Energy Conservation and Environmental Protection Carbon Peak Carbon Neutrality Research Institute*（中節能碳達峰碳中和研究院）.

Biography of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Qiang ("Mr. Wu"), aged 64, has been appointed as an independent non-executive Director of the Company since 29 December 2016. Mr. Wu is the chairman of the group development strategic committee, 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, and 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.

Mr. Guan Chenghua ("Mr. Guan"), aged 55, has been appointed as an independent non-executive Director of the Company since 28 March 2020. Mr. Guan is also the chairman of remuneration committee and nomination committee, the member of audit committee and group development strategic committee of the Company. 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.

Mr. Zhang Honghai ("Mr. Zhang"), aged 71, has been appointed as an independent non-executive Director of the Company since 10 November 2023. Mr. Zhang is also the chairman of audit committee, the member of remuneration committee, nomination committee and group development strategic committee of the Company. Mr. Zhang graduated from Peking University in 1982 and subsequently completed a postgraduate programme at the International Business School of Hunan University and was awarded a master degree and the title of Senior Economist. Mr. Zhang also holds an EMBA degree from Guanghua School of Management, Peking University. Mr. Zhang has served as director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality. From 1990 to 1998, Mr. Zhang worked as deputy general manager, then was promoted to vice chairman and general manager of Beijing International Trust Investment Limited. Mr. Zhang has served as (i) an executive director and vice chairman of Beijing Enterprises Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 392); (ii) an executive director and chairman of Beijing Enterprises Water Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 371); (iii) an executive director of Beijing Enterprises Environment Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 154); and (iv) an executive director and chairman of the board of BEP International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2326). From September 2014 to January 2017, Mr. Zhang was the independent non-executive Director of the Company.

SENIOR MANAGEMENT

Mr. Yang Mingzhong ("Mr. Yang"), aged 45, the Chief executive officer of the Company since 2 December 2022. Mr. Yang 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 graduated from Harbin Institute of Technology in 2001 with a bachelor's degree in Architectural Environment and Equipment Engineering. Since January 2003, he joined our subsidiaries of the Group Ever Source Science and Technology Development Group Co., Ltd. Mr. Yang has been appointed as a vice president of HYY Group, system design Director and executive vice president of CHYY Development Group Limited. Mr. Yang has been engaged in HVAC mechanical and electrical design and construction management for a long time. Mr. Yang is specializes in comprehensive application technology of geothermal energy heating system. He has extensive business management experience.

Ms. Nie Dan ("Ms. Nie"), aged 42, a PRC lawyer. Ms. Nie is currently the chief legal officer of the Company, mainly in-charge of legal affairs and 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 director of legal affairs and human resources, assistant to the president and executive vice president.

Mr. Pan Ya ("Mr. Pan"), aged 47. Mr. Pan is currently the financial officer of the Group's geothermal industry and the chief financial officer of the Company. Mr. Pan is a senior accountant and a Chinese certified tax agent. Mr. Pan graduated from Nanjing University of Finance & Economic（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 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 Ever Source Science and Technology Development Group Co., Ltd, a subsidiary of the 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, the chief financial officer of HYY Group and the chief financial officer of the Company. Mr. Pan is currently also a director or a supervisor of certain subsidiaries of the Company.

Biography of Directors and Senior Management

Mr. Chen Ning ("Mr. Chen"), aged 43. Mr. Chen is currently the internal audit officer and company secretary of the Company. Mr. Chen is a certified public accountant, a senior accountant and a China Certified Tax Agent. Mr. Chen holds a master's degree in management from Beijing Information Science & Technology University and joined the Company in November 2023. Mr. Chen was the chief financial officer of certain subsidiaries of Beijing Gas Group Limited, an executive director and the chief financial officer of Beijing Gas Blue Sky Holdings Limited (a company listed on the main board of the Stock Exchange, stock code: 6828).

Mr. He Tianyue ("Mr. He"), aged 50. Mr. He is currently the chief information officer of the Company, mainly responsible for information network and customer services 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 and executive vice president of the Company.

Ms. Liu Baohong ("Ms. Liu"), aged 41, holds the title of engineer. Ms. Liu is currently the chief product officer of the Company and is mainly responsible for the production, sales and operation of heat pump products. In 2006, she graduated from North China University of Science and Technology with a bachelor's degree in Building Environment and Equipment Engineering. Ms. Liu joined Ever Source Science and Technology Development Group Co., Ltd, a subsidiary of the Group, in 2007 and served as a designer, director of the design office and assistant to the president and executive vice president of the Company. 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.

* *For identification purpose only*

Report of the Directors

The Directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2023.

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 consolidated financial statements.

An analysis of the Group's performance for the year ended 31 December 2023 by business segments are set out in note 4 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2023 and the Group's financial position as at that date are set out in the consolidated financial statements on pages 47 to 134.

The directors do not recommend the payment of any dividend for the year ended 31 December 2023.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2023 and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 7 to 13. A summary of the Group's performance during the year ended 31 December 2023 is provided in the "Financial Highlights" and "Five-Year Financial Summary" set out on page 6 and 135 respectively of this annual report. In addition, the financial risk management objectives and policies of the Group can be referred in note 43 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

The Group's land and buildings were revalued as at 31 December 2023. The revaluation resulted in a deficit over book values amounting to approximately HK$9,630,000, 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 consolidated financial statements.

INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the end of the year. There was a decrease in fair value with amount of HK$1,499,000 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 2023 are set out on page 136 of this annual report.

Report of the Directors

SIGNIFICANT INVESTMENTS HELD

During the year ended 31 December 2023, 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 2023 is 42.90%.

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 2023, 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 2023, 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 32 and 33 respectively to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2023, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CHARITY DONATIONS

During the year, the Group made charity donations of RMB200,000 and heating equipment of RMB7,090,000 (equivalents to approximately HK$793,686) (2022: RMB7,000).

OTHER RESERVES

Details of movements in the other reserves of the Company and the Group during the year are set out in note 34 to the consolidated 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 2023, the Company did not have any reserve available for distribution after net off the accumulated losses of the Company (2022: Nil).

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 minimise 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 analyse 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 46.2% (2022: 36.9%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 10.5% (2022:15.8%). Purchases from the Group's five largest suppliers accounted for approximately 31.06% (2022: 31.82%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 16.72% (2022:11.61%).

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

Executive Directors:

Mr. Xu Shengheng *(Chairman)*
Ms. Chan Wai Kay Katherine *(Deputy Chairman)*
Mr. Dai Qi
Mr. Zhang Wei (Appointed on 28 March 2024)

Non-executive Directors:

Mr. Yang Wei (Resigned on 5 July 2023)
Mr. Zhang Yiying
Ms. Liu Ening
Mr. Liao Yuan (Appointed on 5 July 2023)

Independent non-executive Directors:

Mr. Wu Desheng (Resigned on 4 November 2023)
Mr. Wu Qiang
Mr. Jia Wenzeng (Resigned on 4 November 2023)
Mr. Guan Chenghua
Mr. Zhang Honghai (Appointed on 10 November 2023)

Note: In accordance with article 84(3) and 85 of the Articles, Mr. Xu Shengheng, Ms. Chan Wai Kay Katherine, Mr. Zhang Wei, Ms. Liu Ening and Mr. Zhang Honghai will retire at the forthcoming annual general meeting, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 14 to 18 of this 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.

ANNUAL CONFIRMATION OF INDEPENDENCE

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' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in notes 8 and 40 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, 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 2023 is set out below:

Changes of Directors and nominations of the Company

1) Mr. Yang Wei has resigned as non-executive director, deputy chairman of Nomination Committee and deputy chairman of Group Development Strategic Committee of the Company with effect from 5 July 2023.

2） Mr. Liao Yuan has been appointed as a non-executive director, deputy chairman of Nomination Committee and deputy chairman of Group Development Strategic Committee of the Company with effect from 5 July 2023.

3) Mr. Jia Wenzeng has resigned as independent non-executive director, the chairman of Audit Committee, a member of Remuneration Committee, a member of Nomination Committee and a member of Group Development Strategic Committee of the Company, with effect from 4 November 2023.

4) Mr. Wu Desheng has resigned as independent non-executive director, the chairman of Nomination Committee, a member of Audit Committee, a member of Remuneration Committee and a member of Group Development Strategic Committee, with effect from 4 November 2023.

5) Mr. Zhang Honghai has been appointed as independent non-executive director, the chairman of Audit Committee, a member of Nomination Committee, a member of Remuneration Committee and a member of Group Development Strategic Committee, with effect from 10 November 2023.

6) Mr. Guan Chenghua has been appointed as the chairman of Nomination Committee, with effect from 10 November 2023.

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 2023.

Report of the Directors

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 2023, 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 Director	Capacity	Number of Shares[7] interested by nature	Percentage of total issued Shares capital of the Company[1]
Mr. Xu Shengheng（徐生恒先生）	Beneficial owner	722,170,600	15.97%
	Interest of spouse[5]	982,800	
Ms. Chan Wai Kay Katherine（陳蕙姬女士）	Beneficial owner	66,790,400	1.79%
	Interest of spouse[6]	14,103,600	
Ms. Liu Ening（劉婀寧女士）	Beneficial owner	253,000,000	5.59%
Mr. Zhang Yiying（張軼穎先生）	Beneficial owner	5,504,000	5.64%
	Interest of Controlled Corporation[2]	250,000,000	
Mr. Jia Wenzeng（賈文增先生）[3]	Beneficial owner	5,000,000	0.11%
Mr. Wu Desheng（吳德繩先生）[4]	Beneficial owner	5,000,000	0.11%
Mr. Wu Qiang（武強先生）	Beneficial owner	5,000,000	0.11%
Mr. Guan Chenghua（關成華先生）	Beneficial owner	5,000,000	0.11%

Notes:

(1) The calculation is based on (i) the aggregate number of the shares of the Company ("Shares") and the underlying Shares, if any; and (ii) the total number of 4,526,925,163 Shares in issue of the Company as at 31 December 2023 used for the calculation of the approximate percentage.

(2) Universal Zone Limited, which is wholly owned by Mr. Zhang Yiying（張軼穎先生）, holds 250,000,000 Shares. Under the SFO, Mr. Zhang Yiying（張軼穎先生）is deemed to be interested in all the shares held by Universal Zone Limited.

(3) Mr. Jia Wenzeng（賈文增先生）resigned as independent non-executive director of the Company on 4 November 2023, please refer to the announcement of the Company dated 3 November 2023 for details.

(4) Mr. Wu Desheng（吳德繩先生）resigned as independent non-executive director of the Company on 4 November 2023, please refer to the announcement of the Company dated 3 November 2023 for details.

(5) These interests are beneficially held by Ms. Luk Hoi Man（陸海汶女士）, the spouse of Mr. Xu Shengheng（徐生恒先生）, comprising 982,800 Shares. Pursuant to the SFO, Mr. Xu Shengheng（徐生恒先生）is deemed to be interested in all the interests held by Ms. Luk Hoi Man（陸海汶女士）.

(6) These interests are beneficially held by Mr. Chow Ming Joe Raymond（周明祖先生）, the spouse of Ms. Chan Wai Kay Katherine（陳蕙姬女士）, comprising 14,103,600 Shares. Under the SFO, Ms. Chan Wai Kay Katherine（陳蕙姬女士）is deemed to be interested in all interests held by Mr. Chow Ming Joe Raymond（周明祖先生）.

Save as disclosed above, as at 31 December 2023, none of the Directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of 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 the minimum standards of dealing by directors of the Company as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in notes 33 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 Directors 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 33 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.

Report of the Directors

INTERESTS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER SFO

So far as is notified to the Directors, as at 31 December 2023, 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	Capacity	Number of Shares interested	Percentage of total issued Shares capital of the Company[1]
China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited*（中國節能環保（香港）投資有限公司）[2]	Beneficial owner	1,190,000,000	26.29%
China Energy Conservation and Environmental Protection Group*（中國節能環保集團有限公司）[2]	Interest of controlled corporation	1,190,000,000	26.29%
Ms. Luk Hoi Man（陸海汶女士）[5]	Beneficial owner	982,800	0.02%
	Interest of spouse	722,170,600	*15.95%*
Ms. Wang Xinmeng（王心萌女士）[6]	Interest of spouse	255,504,000	5.64%
Universal Zone Limited[4]	Beneficial owner	250,000,000	5.52%
Mr. Wang Michael Zhiyu（王志宇先生）[3]	Interest of spouse	253,000,000	5.59%

Notes:

(1) The calculation is based on (i) the aggregate number of Shares and the underlying Shares, if any; and (ii) the total number of 4,526,925,163 Shares in issue of the Company as at 31 December 2023 used for the calculation of the approximate percentage.

(2) China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited（中國節能環保（香港）投資有限公司）, a wholly-owned subsidiary of China Energy Conservation and Environmental Protection Group（中國節能環保集團有限公司）, holds 1,190,000,000 Shares.

(3) Such interests are beneficially owned by Mr. Wang Michael Zhiyu（王志宇先生）, the spouse of Ms. Liu Ening（劉婀寧女士）, the spouse of Mr. Wang Michael Zhiyu（王志宇先生）, comprising 253,000,000 Shares. Pursuant to the SFO, Mr. Wang Michael Zhiyu（王志宇先生）is deemed to be interested in all the interests held by Ms. Liu Ening（劉婀寧女士）.

(4) Such interest is beneficially held by Universal Zone Limited ("Universal Zone"), which is beneficially owned by Mr. Zhang Yiying（張軼穎先生）, and is therefore deemed to be interested in all the interests held by Universal Zone under the SFO.

(5) The interests are beneficially held by Mr. Xu Shengheng（徐生恒先生）, the spouse of Ms. Luk Hoi Man（陸海汶女士）, comprising 722,170,600 Shares. Pursuant to the SFO, Ms. Luk Hoi Man（陸海汶女士）is deemed to be interest in all the interest held by Mr. Xu Shengheng（徐生恒先生）.

(6) Such interests are beneficially owned by Mr. Zhang Yiying（張軼穎先生）, the spouse of Ms. Wang Xinmeng （王心萌女士）, comprising 255,504,000 Share. Pursuant to the SFO, Ms. Wang Xinmeng （王心萌女士）is deemed to be interested in all the interests held by Mr. Zhang Yiying（張軼穎先生）.

Save as disclosed above, as at 31 December 2023, the Directors 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.

* *For identification purpose only*

CONNECTED TRANSACTIONS

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

(a) The continuing connected transactions exempt from independent shareholders' approval requirements under Rule 20.74 of the GEM Listing Rules undertaken by the Group during the period under review are set out below:

On 18 January 2022, the Company entered into the sale and purchase framework agreement ("2022 SP Framework Agreement") with China Energy Conservation and Environmental Protection Group ("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 sale and purchase framework agreement from 1 January 2022 to 31 December 2024.

As at the date of 18 January 2022, CECEP (through its wholly-owned subsidiary China Energy Conservation and Environmental Protection (Hong Kong) Investment Company Limited ("CECEP(HK)") is a substantial shareholder and is interested in 1,190,000,000 shares, representing approximately 26.29% of the total issued share capital of the Company. Therefore, CECEP is a connected person of the Company pursuant to the GEM Listing Rules. The Company entered into the 2022 SP Framework Agreement with CECEP for the supply transactions contemplated thereunder constitutes continuing connected transactions on the part of the Company pursuant to Chapter 20 of the GEM Listing Rules. In view of all the applicable percentage ratios for the supply annual caps are less than 5%, therefore the transactions contemplated under the SP Framework Agreement are subject to the reporting, annual review and announcement requirements but are exempt from the independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

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 2022 to 31 December 2022 (the "Period") was RMB8,000,000. 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.

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 2023 to 31 December 2023 (the "Period") was RMB8,000,000. 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.

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

(b) 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, Ever Source Science & Technology Development Group Co., Ltd. ("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"). As at the date of the Agreement, Sichuan Changhong 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 1 January 2022 to 31 December 2022 (the "Period") was RMB18,000,000. 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 1 January 2022 to 31 December 2022 (the "Period") was RMB140,000,000. 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 RMB6,521,290.

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 1 January 2023 to 31 December 2023 (the "Period") was RMB22,000,000. 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 1 January 2023 to 31 December 2023 (the "Period") was RMB165,000,000. 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 RMB603,000.

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 announcement dated 18 January 2022 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.

Details of other significant related party transactions of the Group during the year ended 31 December 2023 are set out in note 40 to the consolidated 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 are decided by the Board upon the recommendation by remuneration committee of the Board, 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 33 to the consolidated 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.

MANAGEMENT CONTRACTS

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

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 three independent non-executive Directors of the Company, namely Mr. Zhang Honghai (the chairman of the Audit Committee), Mr. Wu Qiang and Mr. Guan Chenghua. The Audit Committee has reviewed the Group's audited final results for the year ended 31 December 2023 and has provided advice and comments thereon. The Audit Committee held eight meetings during the year.

Report of the Directors

CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 31 to 40.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company prepared in accordance with Appendix C2 of the GEM Listing Rules will be published on or before the end of April 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.

SUFFICIENT OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the issue of this annual report, the Company has maintained sufficient public float as required under the GEM Listing Rules.

AUDITOR

Ernst & Young has resigned as the auditor of the Company with effect from 6 September 2022, as the Company could not reach a consensus with Ernst & Young in respect of the audit fees for the year ending 31 December 2022.

BDO Limited was appointed as the auditor of the Company on 10 November 2022 and resigned on 23 June 2023, i) as the Board did not agree the additional audit fee, and ii) BDO Limited and the Company cannot come to an agreement on the timetable.

On 31 July 2023, CL Partners CPA Limited ("CL Partners") was appointed as an auditor of the Company.

The consolidated financial statements of the Company for the year ended 31 December 2023 was audited by CL Partners, who will retire at the conclusion of the forthcoming annual general meeting and will be eligible, offer themselves for re-appointment. A resolution for the re-appointment of CL Partners as auditor of the Company will be proposed at the forthcoming annual general meeting.

For and on behalf of the Board

Xu Shengheng
Chairman & Executive Director

Hong Kong, 28 March 2024

The board of Directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2023.

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 C1 of the GEM Listing Rules throughout the year ended 31 December 2023 (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 2023, the Board comprised of nine Directors including three executive Directors, namely Mr. Xu Shengheng (Chairman of the Group), Ms. Chan Wai Kay Katherine and Mr. Dai Qi, three non-executive Directors namely Mr. Liao Yuan, Ms. Liu Ening and Mr. Zhang Yiying and three independent non-executive Directors, namely, Mr. Wu Qiang, Mr. Guan Chenghua and Mr. Zhang Honghai.

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 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 of the Board (the "Audit Committee"), remuneration committee of the Board (the "Remuneration Committee") and nomination committee of the Board (the "Nomination Committee").

According to the Articles, 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 best 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 2023, a total of 14 Board meetings were held.

Corporate Governance Report

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 2023, fourteen 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	14/14	N/A	5/5	4/4	2/2
Ms. Chan Wai Kay Katherine	14/14	N/A	N/A	N/A	2/2
Mr. Dai Qi	13/14	N/A	5/5	N/A	2/2
Non-executive Directors					
Mr. Yang Wei (Resigned on 5 July 2023)	5/5	N/A	N/A	1/1	N/A
Mr. Liao Yuan (Appointed on 5 July 2023)	6/8	N/A	N/A	1/2	1/2
Ms. Liu Ening	14/14	N/A	N/A	N/A	2/2
Mr. Zhang Yiying	13/14	N/A	N/A	N/A	2/2
Independent non-executive Directors					
Mr. Jia Wenzeng (Resigned on 4 November 2023)	11/12	6/7	3/4	2/3	1/1
Mr. Wu Desheng (Resigned on 4 November 2023)	11/12	7/7	4/4	3/3	1/1
Mr. Wu Qiang	12/14	6/8	4/5	3/4	1/2
Mr. Guan Chenghua	13/14	7/8	4/5	3/4	2/2
Mr. Zhang Honghai (Appointed on 10 November 2023)	2/2	N/A	N/A	N/A	N/A

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. Liao Yuan the non-executive Director and Mr. Wu Qiang the independent non-executive Director (being the Chairman of the Group Development Strategic Committee of the Company) did not attend the annual general meeting held on 9 November 2023.

Notes: During the reporting period, the Group Development Strategic Committee did not hold meeting.

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. Mr. Xu Shengheng is the Chairman of the Group. Mr. Yang Mingzong is the chief executive officer.

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. Liao Yuan, Mr. Zhang Yiying and Ms. Liu Ening, the non-executive Directors, Mr. Jia Wenzeng, Mr. Wu Desheng, Mr. Wu Qiang, Mr. Guan Chenghua and Mr. Zhang Honghai, 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.

Mechanisms to ensure independent views

The Company ensures independent views and input are available to the Board via the below mechanisms:

1. The Board composition and the independence of the independent non-executive Directors should be reviewed by the Nomination Committee on an annual basis, in particular the proportion of the independent non-executive Directors and the independence of the independent non-executive director who has served for more than nine years (if applicable).

2. 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.

3. In view of good corporate governance practices and to avoid conflict of interests, the Directors who are also directors and/or senior management of the Company's controlling shareholders and/or certain subsidiaries of the controlling shareholders, would abstain from voting in the relevant Board resolutions in relation to the transactions with the controlling shareholders and/or its associates.

4. The chairman of the Board shall meet with independent non-executive Directors at least once annually.

5. All members of the Board can seek independent professional advice when necessary to perform their responsibilities in accordance with the company policy.

The Board reviews the mechanisms for ensuring independent views and input are available to the Board on an annual basis, whether in terms of proportion, recruitment and independence of independent non-executive Directors, and their contribution and access to external independent professional advice.

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.

Corporate Governance Report

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 2023, 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 ICAC	Receiving internal training
Mr. Xu Shengheng	✓	✓	✓
Ms. Chan Wai Kay Katherine	✓	✓	✓
Mr. Dai Qi	✓	✓	✓
Mr. Yang Wei (Resigned on 5 July 2023)	✓	✓	✓
Mr. Liao Yuan (Appointed on 5 July 2023)	✓	✓	✓
Mr. Zhang Yiying	✓	✓	✓
Ms. Liu Ening	✓	✓	✓
Mr. Jia Wenzeng (Resigned on 4 November 2023)	✓	✓	✓
Mr. Wu Desheng (Resigned on 4 November 2023)	✓	✓	✓
Mr. Wu Qiang	✓	✓	✓
Mr. Guan Chenghua	✓	✓	✓
Mr. Zhang Honghai (Appointed on 10 November 2023)	✓	✓	✓

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 committee is chaired by an independent non-executive director and comprise a majority of independent non-executive directors. 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 three independent non-executive Directors, namely Mr. Guan Chenghua (chairman of remuneration committee), Mr. Wu Qiang and Mr. Zhang Honghai and two executive Directors namely Mr. Xu Shengheng (Deputy Chairman of remuneration committee) and Mr. Dai Qi (Deputy Chairman of remuneration committee). During the Reporting Period, five meetings were held by the Remuneration Committee, among other things, to review the remuneration of the Directors for year 2024 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. A majority of its members comprised of Independent non-executive directors. 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 Mr. Guan Chenghua (Chairman of Nomination Committee), Mr. Xu Shengheng (Deputy Chairman of Nomination Committee), Mr. Liao Yuan (Deputy Chairman of the Nomination Committee), Mr. Wu Qiang and Mr. Zhang Honghai. During the Reporting Period, the Nomination Committee held four 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 2023, the Board comprised of nine Directors including three executive Directors, three non-executive Directors and three independent non-executive Directors, amongst of them, 2 members are female and 7 members are male. As at 31 December 2023, the total workforce of the Group is 218, amongst of them, 42 staff are female and 176 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.

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.

Corporate Governance Report

AUDITOR'S REMUNERATION

The audit works of the Group for the year ended 31 December 2023 were performed by CL Partners CPA Limited. 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 2023 *HK$'000*
Audit services	1,665
Non-audit services	–
Total	1,665

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 three independent non-executive Directors, namely Mr. Zhang Honghai (chairman of the Audit Committee), Mr. Wu Qiang and Mr. Guan Chenghua.

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

1) the quarterly, interim reports and annual report 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

Mr. Chen Ning, the company secretary of the Company, is a certified public accountant in the PRC. Mr. Chen joined the Group in November 2023 and the Stock Exchange has agreed to allow Mr. Chen to take up the position of company secretary by virtue of his experience. During the Reporting Period, Mr. Chen (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.

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) Keen competition in market, the business structure is too unitary.

Corporate Governance Report

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 "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 decline of business year by year in rent years, the negative benefits of scale decline have gradually become obvious, and liquidity in daily operation is obviously insufficient.

ii) The staff structure is unreasonable, and the market development personnel are lacking.

Corresponding measures:

i) Through a variety of ways at the same time, optimize asset structure, improve liquidity and enhance risk resistance;

ii) Strengthening the recruitment of human resources.

3) Capital risk

i) The decrease in new projects has led to a decrease in cash flow from new projects and an increase in the difficulty of collecting payments from existing projects.

ii) Some of the advance projects had to be abandoned in order to regulate the financial pressure.

Corresponding measures:

i) Through normal collection litigation and other measures to strengthen the collection of project collection.

ii) For newly implemented projects, shall be carried out in strict accordance with the collection time stipulated in the contract, and measures such as temporary work shall be taken after the time limit.

iii) While improving the service level of the operation and stabilizing the cash flow of operation service projects, we will develop engineering projects with high rate of return and superior cash flow.

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 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 emphasised 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 chief financial officer and 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.

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 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.

The payment of dividend by the Company is also subject to any restrictions under the Cayman Islands laws and the Articles.

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.

Corporate Governance Report

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.chyy.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, 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:	852-3753 9833
E-mail:	info@chyy.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

The Articles (a) amend the requirements of the HKEX newly amended Listing Regime for overseas issuers and the GEM Listing Rules applicable to issuers providing equal protection to all investors, (b) allow hybrid/proposed meetings, and (c) amend the address of the Offshore Registered Office, which were approved for issue at the AGM held on 9 November 2023.

CCL Partners

To the shareholders of
CHYY Development Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CHYY Development Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 47 to 134, which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policy information and other explanatory information.

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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on provision, installation and maintenance of shallow geothermal energy utilisation system	
Refer to material accounting policy information in note 2.4, note 3 and note 5 to the consolidated financial statement The Group recognises revenue from provision, installation and maintenance of shallow geothermal energy utilisation system 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. 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.	Our audit procedures to assess the revenue recognition on provision, installation and maintenance of shallow geothermal energy utilisation system included the following: • understanding and evaluating design and implementation key controls and processes of management for revenue recognition; • obtaining material shallow geothermal energy contracts to review the key contract terms; • assessing the contract costs incurred by sample testing supporting documents, such as payment vouchers, supporting suppliers' invoices and contracts, and performing cut-off testing procedures; • assessing 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; • performing re-calculation of the performance progress, based on accumulative actual costs incurred relative to the estimated total contract costs and the revenues recognised on a sampling basis; and • performing analytical review procedures on the gross margins of major contracts of the Group for any material or unusual fluctuations.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables and contract assets under expected credit losses model	
Refer to material accounting policy information in note 2.4, note 3, note 21 and note 22 to the consolidated financial statements As at 31 December 2023, the Group had trade receivables and contract assets of HK$73,036,000 and HK$35,765,000, respectively. The expected credit losses allowance of trade receivables and contract assets were 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. As at 31 December 2023, the expected credit losses allowance of trade receivables and contracts are approximately to HK$166,062,000 and HK$410,462,000 respectively. We identified the above matter as key audit matter due to the significant amount of trade receivables and contract assets, and the estimation of the expected credit losses allowances of trade receivables and contracts assets involved significant estimation and judgement.	Our audit procedures to assess the impairment of trade receivables and contract assets under expected credit losses model included the following: • understanding and evaluating design and implementation key controls and processes of management's expected credit losses assessment of trade receivables and contract assets, and respective credit risk policies; • assessing the reasonableness and appropriateness management's accounting estimates and the expected credit losses model relevant to trade receivables and contract assets by discussing with management the application of the simplified approach in calculating expected credit losses; • challenging the assumptions used to determine the expected credit losses with the relevant economic environment, project status and legal cases status, if any; • checking, on a sample basis, the aging profile of the trade receivables and contract assets to the underlying financial records and post year-end settlements to bank receipts; • evaluating the appropriateness and reasonableness of the grouping of various customer segments based on our knowledge of the customers, historical settlement record, and the historical observed loss rates, if any; • performing re-calculation of the expected credit losses allowance of trade receivables and contract assets provided by the management; • performing sensitivity analyses for the key assumptions adopted in the expected credit losses model, including forward-looking information and considering whether there is any indication of management bias; and • assessing the adequacy of the disclosures on the trade receivables and contract assets in the consolidated financial statements.

Independent Auditor's Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How the matter was addressed in our audit
Fair values of leasehold land and buildings and investment properties	
Refer to material accounting information in note 2.4, note 3, note 13 and note 14 to the consolidated financial statements As at 31 December 2023, the Group had significant amounts of leasehold land and buildings and investment properties amounting to HK$136,552,000 and HK$123,703,000, respectively 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 relevant properties 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 respective properties.	Our audit procedures to assess the fair values of leasehold land and buildings and investment properties included the following: • assessing the objectivity, capability and competence of the independent external valuer engaged by management; • obtaining the valuation reports and assessing the appropriateness and reasonableness of the valuation method, assumptions as well as the key valuation inputs applied, such as the prevailing market rents, market yields and comparable market transactions; • challenging with the management and the independent external valuer on the assumptions adopted in the valuation, including 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; and • reviewing the presentation and disclosures in the consolidated financial statements regarding the fair values of the respective properties.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF THE DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors 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.

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

Independent Auditor's Report

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.

CL Partners CPA Limited
Certified Public Accountants

Wong Cho Yi
Practising Certificate Number: P07897
Hong Kong
28 March 2024

Consolidated Statement of Profit or Loss

Year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
REVENUE	5	**67,860**	119,428
Cost of sales		**(58,601)**	(104,307)
Gross profit		**9,259**	15,121
Other income and gains	5	**16,816**	14,328
Selling and distribution expenses		**(2,713)**	(2,837)
Administrative expenses		**(52,758)**	(51,670)
Reversal of impairment loss/(impairment loss) on trade receivables, net	22	**2,378**	(38,289)
Impairment loss on prepayments, other receivables and other assets, net	23	**(1,897)**	(15,470)
Reversal of impairment loss/(impairment loss) on contract assets, net	21	**41,599**	(63,323)
Finance costs	7	**(4,175)**	(5,355)
Fair value changes on investment properties	14	**(1,499)**	58
Other expenses and losses		**(3,612)**	(8,120)
Share of results of:			
A joint venture	16	**2,647**	101
Associates		**1,046**	(2,250)
PROFIT/(LOSS) BEFORE TAX	6	**7,091**	(157,706)
Taxation	10	**(2,369)**	22,243
PROFIT/(LOSS) FOR THE YEAR		**4,722**	(135,463)
Attributable to:			
Owners of the Company		**9,475**	(134,332)
Non-controlling interests		**(4,753)**	(1,131)
		4,722	(135,463)
EARNINGS/(LOSS) PER SHARE	12		
Basic and diluted (expressed in HK cents)		**0.21**	(2.97)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2023

	Note	2023 HK$'000	2022 HK$'000
PROFIT/(LOSS) FOR THE YEAR		**4,722**	(135,463)
OTHER COMPREHENSIVE (EXPENSE)/INCOME			
Other comprehensive (expense)/income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences arising from translation of foreign operations		**(802)**	(11,001)
Share of other comprehensive expense of a joint venture		**(34)**	(62)
Share of other comprehensive expense of associates		**(271)**	(4,236)
Release of exchange fluctuation reserve upon partial disposal of an associate		**569**	–
Net other comprehensive expense that may be reclassified to profit or loss in subsequent periods		**(538)**	(15,299)
Other comprehensive expense that will not be reclassified to profit or loss in subsequent periods:			
Loss on property revaluation	13	**(9,630)**	(3,440)
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		**(875)**	(1,862)
Income tax effect		**219**	466
		(656)	(1,396)
Net other comprehensive expense that will not be reclassified to profit or loss in subsequent periods		**(10,286)**	(4,836)
OTHER COMPREHENSIVE EXPENSE FOR THE YEAR, NET OF TAX		**(10,824)**	(20,135)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(6,102)**	(155,598)
Attributable to:			
Owners of the Company		**(891)**	(151,179)
Non-controlling interests		**(5,211)**	(4,419)
		(6,102)	(155,598)

Consolidated Statement of Financial Position

31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**146,609**	168,673
Investment properties	14	**123,703**	127,001
Right-of-use assets	15(a)	**692**	1,523
Investment in a joint venture	16	**3,906**	1,293
Investments in associates	17	**28,202**	47,980
Equity investments designated at fair value through other comprehensive income	18	**55,761**	57,357
Trade receivables	22	**65,946**	65,468
Deposit paid for acquisition of investment properties	23	**1,593**	–
Total non-current assets		**426,412**	469,295
CURRENT ASSETS			
Inventories	19	**13,633**	15,821
Properties held for sale	20	**299,026**	303,949
Trade receivables	22	**7,090**	23,127
Prepayments, other receivables and other assets	23	**83,694**	65,129
Contract assets	21	**35,765**	35,482
Amounts due from related companies	24	**–**	295
Equity investments designated at fair value through other comprehensive income	18	**261,530**	265,308
Financial assets at fair value through profit or loss	26	**3,795**	2,880
Restricted cash	27	**3,712**	60
Time deposits	27	**689**	19,460
Cash and cash equivalents	27	**69,553**	47,043
		778,487	778,554
CURRENT LIABILITIES			
Trade payables	28	**157,241**	199,801
Other payables and accruals	29	**415,025**	408,483
Contract liabilities	23	**38,453**	33,412
Amounts due to associates	25	**18,035**	18,364
Amount due to a joint venture	25	**220**	223
Amounts due to related companies	24	**31,203**	28,678
Lease liabilities	15(b)	**6,455**	6,796
Tax payable		**141,163**	140,204
Total current liabilities		**807,795**	835,961
NET CURRENT LIABILITIES		**(29,308)**	(57,407)
TOTAL ASSETS LESS CURRENT LIABILITIES		**397,104**	411,888

Consolidated Statement of Financial Position

31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
NON-CURRENT LIABILITIES			
Lease liabilities	15(b)	**66,639**	73,850
Deferred income	30	**8,828**	8,955
Deferred tax liabilities	31	**43,047**	44,391
Total non-current liabilities		**118,514**	127,196
Net assets		**278,590**	284,692
EQUITY			
Equity attributable to owners of the Company			
Share capital	32	**353,043**	353,043
Shares held for Share Award Scheme	33	**(8,169)**	(8,169)
Other reserves	34	**(94,950)**	(94,059)
		249,924	250,815
Non-controlling interests		**28,666**	33,877
Total equity		**278,590**	284,692

The consolidated financial statements on pages 47 to 134 were approved and authorised for issue by the board of directors on 28 March 2024 and are signed on its behalf by:

Chan Wai Kay, Katherine
Director

Dai Qi
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

		Attributable to owners of the Company												
	Note	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	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2022		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
Loss for the year		–	–	–	–	–	–	–	–	–	(134,332)	(134,332)	(1,131)	(135,463)
Other comprehensive expense for the year:														
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	–	(2,515)	–	–	(2,515)	–	(2,515)
Exchange differences arising from translation of foreign operations		–	–	–	–	–	–	–	–	(6,594)	–	(6,594)	(3,288)	(9,882)
Loss on property revaluation	*13*	–	–	–	–	(3,440)	–	–	–	–	–	(3,440)	–	(3,440)
Share of other comprehensive expense of associates		–	–	–	–	–	–	–	–	(4,236)	–	(4,236)	–	(4,236)
Share of other comprehensive expense of a joint venture		–	–	–	–	–	–	–	–	(62)	–	(62)	–	(62)
Total comprehensive expense for the year		–	–	–	–	(3,440)	–	–	(2,515)	(10,892)	(134,332)	(151,179)	(4,419)	(155,598)
Transfer of reserve		–	–	–	2,933	–	–	–	2,236	–	(5,169)	–	–	–
Release upon impairment of property held for sale		–	–	–	–	(3,650)	–	–	–	–	–	(3,650)	–	–
Disposal/deregistration of subsidiaries		–	–	–	(135)	–	–	–	–	–	135	–	12,110	12,110
At 31 December 2022		353,043	(8,169)	906,013	5,733	38,358	154,381	7,553	85,428	(11,799)	(1,279,726)	250,815	33,877	284,692

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

		Attributable to owners of the Company												
	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*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2023		353,043	(8,169)	906,013	5,733	38,358	154,381	7,553	85,428	(11,799)	(1,279,726)	250,815	33,877	284,692
Profit/(loss) for the year		–	–	–	–	–	–	-	–	–	9,475	9,475	(4,753)	4,722
Other comprehensive expense for the year:														
Changes in fair value of equity investments designated at fair value through other comprehensive income, net of tax		–	–	–	–	–	–	–	(656)	–	–	(656)	–	(656)
Exchange differences arising from translation of foreign operations		–	–	–	–	–	–	–	–	(344)	–	(344)	(458)	(802)
Loss on property revaluation	*13*	–	–	–	–	(9,630)	–	–	–	–	–	(9,630)	–	(9,630)
Release of exchange fluctuation reserve upon partial disposal of an associate		–	–	–	–	–	–	–	–	569	–	569	–	569
Share of other comprehensive expense of associates		–	–	–	–	–	–	–	–	(271)	–	(271)	–	(271)
Share of other comprehensive expense of a joint venture		–	–	–	–	–	–	–	–	(34)	–	(34)	–	(34)
Total comprehensive (expense)/income for the year		–	–	–	–	(9,630)	–	–	(656)	(80)	9,475	(891)	(5,211)	(6,102)
Transfer of reserve		–	–	–	5,312	–	–	–	–	–	(5,312)	–	–	–
Shares purchased for Share Award Scheme	*33*	–	(962)	–	–	–	–	–	–	–	–	(962)	–	(962)
Equity-settled share award by awarded shares	*33*	–	962	–	–	–	–	–	–	–	–	962	–	962
At 31 December 2023		353,043	(8,169)	906,013	11,045	28,728	154,381	7,553	84,772	(11,879)	(1,275,563)	249,924	28,666	278,590

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**7,091**	(157,706)
Adjustments for:			
Finance costs	7	**4,175**	5,355
Interest income	5	**(4,876)**	(5,095)
Gain on disposal of a subsidiary	5	**–**	(2,965)
Gain on partial disposal an associate	5	**(938)**	–
Loss on disposal of an associate	6	**–**	51
Loss on disposal of property, plant and equipment	6	**1,423**	72
Dividend income from equity investments designated at fair value through other comprehensive income	5	**(1,298)**	(2,301)
Depreciation of property, plant and equipment	6	**6,881**	12,275
Depreciation of right-of-use assets	6	**821**	934
Fair value changes on financial assets at fair value through profit or loss	6	**289**	161
Changes in fair value of investment properties		**1,499**	(58)
(Reversal of)/impairment loss on contract assets, net		**(41,599)**	63,323
(Reversal of)/impairment loss on trade receivables, net		**(2,378)**	38,289
Impairment loss on prepayments, other receivables and other assets, net		**1,897**	15,470
Impairment loss on properties held for sale		**600**	3,786
Impairment loss on property, plant and equipment		**3,519**	–
Impairment loss/write off of inventories		**619**	–
Income from exempted payables	5	**(7,928)**	–
Share of results of associates		**(1,046)**	2,250
Share of results of a joint venture		**(2,647)**	(101)
		(33,896)	(26,260)
Decrease/(increase) in inventories		**1,356**	(320)
Decrease in trade receivables		**15,338**	12,195
(Increase)/decrease in prepayments, other receivables and other assets		**(2,089)**	21,235
Decrease in contract assets		**34,371**	9,965
Decrease in trade payables		**(32,139)**	(22,595)
Increase/(decrease) in other payables and accruals		**12,409**	(6,670)
Increase/(decrease) in contract liabilities		**5,555**	(4,019)
(Decrease)/increase in amounts due to associates		**(64)**	4,254
Increase in amounts due to related companies		**3,248**	232
Decrease in amount due to a joint venture		**–**	(435)
Cash from/(used in) operations		**4,089**	(12,418)
Income tax paid		**(31)**	(7,801)
Net cash flows from/(used in) operating activities		**4,058**	(20,219)

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**4,876**	1,248
Dividend income from equity investments designated at fair value through other comprehensive income		**1,298**	2,301
Disposal of a subsidiary	35(b)	**–**	(30)
Proceeds from partial disposal an associate		**1,958**	978
Release of restricted cash		**343**	2,226
Release/(placement) of time deposits		**18,771**	(18,762)
Purchase of financial assets at fair value through profit or loss		**(1,204)**	(3,000)
Net cash flows from/(used in) investing activities		**26,042**	(15,039)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments	36	**(6,460)**	(6,513)
Interest paid		**(4,175)**	(5,355)
Net cash flows used in financing activities		**(10,635)**	(11,868)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**19,465**	(47,126)
Cash and cash equivalents at beginning of year		**47,043**	87,069
Effect of foreign exchange rate changes, net		**3,045**	7,100
CASH AND CASH EQUIVALENTS AT END OF YEAR		**69,553**	47,043
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**69,365**	45,253
Cash held at non-bank financial institutions	27	**188**	1,790
Cash and cash equivalents as stated in the consolidated statement of financial position and consolidated statement of cash flows		**69,553**	47,043

1. CORPORATE AND GROUP INFORMATION

CHYY Development Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability with its shares 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 this annual report.

The Company and its subsidiaries (collectively referred as the "Group") were 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
- Holding investment for medium to long-term strategic purposes and 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

Notes to Consolidated Financial Statements

31 December 2023

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 of the Company, 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 of the Company, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). For the purpose of preparation of the consolidated financial statements, information is considered material of such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include the applicable disclosure required by the Rules Governing the Listing of Securities on GEM on the Stock Exchange and by the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain properties and financial instruments that are measured at revalued amounts or at fair value at the end of each reporting period, as explained in the accounting policies set out below. These consolidated financial statements are presented in Hong Kong dollars ("HK$"), and all values are rounded to the nearest thousand except when otherwise indicated.

The directors of the Company 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 of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2023 on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities (including structured entities controlled by the Company and its subsidiaries). 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.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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 Company 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 previously recognised in other comprehensive income released from equity to profit or loss; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting gain or loss on derecognition of subsidiary 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.

The fair value of any investment retained in the former subsidiary at the date when control is lost to regard as the fair value on initial recognition for subsequent accounting under HKFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the respective subsidiaries upon liquidation.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group's annual period beginning on or after 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	*Insurance Contracts*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two model Rules*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*

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

Notes to Consolidated Financial Statements

31 December 2023

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

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information".

Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information. HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "fourstep materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in notes to the consolidated financial statements. In accordance with the guidance set out in the amendments, accounting policy information that is standardised information, or information that only duplicates or summarises the requirements of the HKFRSs, is considered immaterial accounting policy information and is no longer disclosed in the notes to the consolidated financial statements so as not to obscure the material accounting policy information disclosed in the note 2.4 to the consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

Amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)*[2]
Amendments to HKAS 1	*Non-current Liabilities with Covenants*[2]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*[2]
Amendments to HKAS 21	*Lack of Exchangeability*[3]

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after 1 January 2024.
3 Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company anticipate that the application of all amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION

Investments in associates and a joint venture

An associate is an entity in which the Group has 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 a 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 differ 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. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. 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. Any excess of the cost of the investment over Group's share of fair value of identifiable assets and liabilities at acquisition date, is recognised as goodwill. 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.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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. When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities. 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. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities.

Notes to Consolidated Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Fair value measurement

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 at a market which is directly observable and taken into account the characteristics of assets or liabilities when pricing the assets or liabilities at measurement date. Otherwise, fair value is determined using another valuation techniques.

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.

For financial instruments, investment properties, and leasehold land and buildings which are stated at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation techniques is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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 consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the whether the inputs are observable and 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 consolidated 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.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

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.

Notes to Consolidated Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Property, plant and equipment

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

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to 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 in other comprehensive income. 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 profit or loss. Any subsequent revaluation surplus is credited to 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 at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basic.

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 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.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(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 profit or loss in the period in which they arise.

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

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 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 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.

Notes to Consolidated Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(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 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.

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.

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases. 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 at initial measurement, 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 leased property of 50 years.

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

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Leases *(Continued)*

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of unpaid 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, 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.

In calculating the present value of unpaid 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

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).

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

Group as a lessor

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

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases, otherwise, they are classified as finance 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 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.

Amounts due from finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the 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.

The Group uses the discount rate used for the head lease (adjusted for any initial direct costs associated with the sublease) to measure the net investment in the sublease if the interest rate implicit in the sublease cannot be readily determined.

Notes to Consolidated Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial assets

Initial recognition and measurement

Financial assets when a group equity becomes a party to the contractual provisions of the instrument are classified, at initial recognition, either subsequently (i) measured at amortised cost, or (ii) at fair value through other comprehensive income ("FVTOCI"), or (iii) at fair value through profit or loss ("FVTPL").

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. Transaction costs directly attributable to the acquisition of financial assets at fair value through profit or loss are recognised immediately in profit or loss at initial recognition.

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

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

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

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.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial assets *(Continued)*

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 profit or loss when the asset is derecognised, modified or impaired.

Equity instruments designated at fair value through other comprehensive income

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 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.

Financial assets at fair value through profit or loss

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

This category includes 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 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.

Notes to Consolidated Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

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 when:

- the contractual 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.

Impairment of financial assets subject to impairment assessment under HKFPS 9

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 (i.e. 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.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Impairment of financial assets subject to impairment assessment under HKFPS 9 *(Continued)*

General approach *(Continued)*

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.

Despite the foregoing, the Group assumes that the credit risk on a debt instruments has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

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

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.

Notes to Consolidated Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities when a group entity becomes a party to the contractual provision of the instruments are classified, at initial recognition, as at amortised cost.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and amounts due to associates and a joint venture and related companies.

Financial liabilities at amortised cost

After initial recognition, all financial liabilities 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 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 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 profit or loss.

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.

Properties held for sale

Properties held for sale which are intended to be sold are classified as current assets. Properties held for sale are stated at the lower of cost and net realisable value.

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Cash and cash equivalents

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

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

Taxation

Income tax expense comprises current and deferred income tax expense. Income tax relating to items recognised in other comprehensive income or directly in equity in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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 for 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 at the time of the transaction does not give rise to equal taxable and deductible temporary differences; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in a 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.

Notes to Consolidated Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Taxation *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences 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 at the time of the transaction does not give rise to equal taxable and deductible temporary differences; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in a 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 there will be sufficient taxable profit 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.

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.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted.

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities and the related assets separately. The Group a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

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 MATERIAL ACCOUNTING POLICY INFORMATION *(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 grants are recognised as deferred income in the consolidated statement of financial position at initial recognition and is released to 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 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.

Notes to Consolidated Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Revenue recognition *(Continued)*

(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.

(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.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer that the Group has transferred to a customer that is not yet unconditional before the customer pays consideration or before payment is due. 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 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

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 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 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.

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.

Notes to Consolidated Financial Statements

31 December 2023

2.4 MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Borrowing costs

All borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Hong Kong dollars ("HK$") which is also 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 its 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 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 respective item (i.e., whose fair value gain or loss is 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.

At the end of the reporting period, the assets and liabilities of foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the exchange rates prevailing at the end of the reporting period and profit or loss are translated 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, all of the exchange differences accumulated in other comprehensive income relating to that particular foreign operation is recognised in 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 end of the reporting period. Exchange differences arising are recognised in other comprehensive income.

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. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATES UNCERTAINTY

The preparation of the Group's consolidated 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.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATES UNCERTAINTY *(Continued)*

Critical 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 consolidated 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.

Key sources of 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.

Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted.

Notes to Consolidated Financial Statements

31 December 2023

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATES UNCERTAINTY *(Continued)*

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 which under revaluation amount as at 31 December 2023 were HK$123,703,000 (2022: HK$127,001,000) and HK$136,552,000 (2022: HK$154,965,000), respectively. Further details, including the key assumptions used for fair value measurement, are given in notes 14 and 13 to the consolidated financial statements.

Provision for ECLs 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, if any).

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 the end of each reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATES UNCERTAINTY *(Continued)*

Provision for ECLs on trade receivables and contract assets *(Continued)*

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 notes 22 and 21 to the consolidated financial statements, respectively.

4. OPERATING SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief executive officer, being the chief operating decision maker ("CODM"), that are used to make strategic decisions.

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 – holding investment for medium to long-term strategic purposes and 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 (loss)/profit before tax is measured consistently with the Group's loss before tax except that share of results of associates and a joint venture, interest income, certain other income, certain administration costs and unallocated 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, 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 Consolidated Financial Statements

31 December 2023

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2023	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					
Sales to external customers	61,198	1,014	5,648	–	67,860
Intersegment sales	–	1,385	894	–	2,279
	61,198	2,399	6,542	–	70,139
Reconciliation:					
Elimination of intersegment sales					(2,279)
Revenue					67,860
Segment results	24,902	(2,584)	(4,868)	(289)	17,161
Reconciliation:					
Share of results of a joint venture					2,647
Share of results of associates					1,046
Unallocated other income					10,924
Unallocated finance costs					(347)
Corporate and other unallocated expenses					(24,340)
Profit before tax					7,091
Segment assets	572,367	38,028	487,867	321,544	1,419,806
Reconciliation:					
Elimination of intersegment receivables					(322,509)
Corporate and other unallocated assets					107,602
Total assets					1,204,899
Segment liabilities	625,855	39,402	339,407	10,486	1,015,150
Reconciliation:					
Elimination of intersegment payables					(322,509)
Corporate and other unallocated liabilities					233,668
Total liabilities					926,309

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2023	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	5,983	864	10	24	6,881
Depreciation of right-of-use assets	821	–	–	–	821
(Reversal of impairment loss)/ impairment loss on trade receivables, net	(3,571)	–	1,193	–	(2,378)
Impairment loss on prepayments, other receivables and other assets, net	1,645	–	252	–	1,897
Reversal of impairment loss on contract assets, net	(41,599)	–	–	–	(41,599)
Impairment loss on properties held for sale	–	–	600	–	600

Notes to Consolidated Financial Statements

31 December 2023

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2022	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					
Sales to external customers	109,522	9,815	91	–	119,428
Intersegment sales	–	508	–	–	508
	109,522	10,323	91	–	119,936
Reconciliation:					
Elimination of intersegment sales					(508)
Revenue					119,428
Segment results	(145,580)	(1,262)	2,947	(161)	(144,056)
Reconciliation:					
Elimination of intersegment results					(336)
Share of results of associates					(2,250)
Share of results of a joint venture					101
Unallocated other income					12,283
Unallocated finance costs					(1,445)
Corporate and other unallocated expenses					(22,003)
Loss before tax					(157,706)
Segment assets	596,795	41,946	497,205	326,023	1,461,969
Reconciliation:					
Elimination of intersegment receivables					(331,790)
Corporate and other unallocated assets					117,670
Total assets					1,247,849
Segment liabilities	578,962	43,310	354,651	11,190	988,113
Reconciliation:					
Elimination of intersegment payables					(331,790)
Corporate and other unallocated liabilities					306,834
Total liabilities					963,157

4. OPERATING SEGMENT INFORMATION *(Continued)*

Year ended 31 December 2022	Shallow geothermal energy	Air conditioning/ shallow geothermal heat pump	Property investment and development	Securities investment and trading	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other segment information:					
Amounts included in the measure of segment profit or loss or segment assets:					
Depreciation of property, plant and equipment	12,053	162	27	33	12,275
Depreciation of right-of-use assets	934	–	–	–	934
Impairment loss on trade receivables, net	37,407	–	882	–	38,289
Impairment loss on prepayments, other receivables and other assets, net	13,844	–	1,626	–	15,470
Impairment loss on contract assets, net	63,323	–	–	–	63,323

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.

Notes to Consolidated Financial Statements

31 December 2023

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:

	2023	2022
	HK$'000	*HK$'000*
Customer A	**N/A***	16,200
Customer B	**N/A***	18,879
Customer C	**7,130**	N/A*
	7,130	35,079
Total revenue	**67,860**	119,428
Proportion of revenue	**10.5%**	29.4%

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the respective period.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023	2022
	HK$'000	*HK$'000*
Revenue from contracts with customers	**62,212**	119,337
Revenue from other sources		
Gross rental income from investment property operating leases:		
Other lease payments, including fixed payments	**5,648**	91
	67,860	119,428

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

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended 31 December 2023

	Shallow geothermal energy *HK$'000*	Air conditioning/ shallow geothermal heat pump *HK$'000*	Total *HK$'000*
Types of goods or services:			
Sale of industrial products	–	1,014	1,014
Construction services	61,198	–	61,198
Total revenue from contracts with customers	61,198	1,014	62,212
Timing of revenue recognition:			
Goods transferred at a point in time	–	1,014	1,014
Services transferred over time	61,198	–	61,198
Total revenue from contracts with customers	61,198	1,014	62,212

For the year ended 31 December 2022

	Shallow geothermal energy *HK$'000*	Air conditioning/ shallow geothermal heat pump *HK$'000*	Total *HK$'000*
Types of goods or services:			
Sale of industrial products	–	9,815	9,815
Construction services	109,522	–	109,522
Total revenue from contracts with customers	109,522	9,815	119,337
Timing of revenue recognition:			
Goods transferred at a point in time	–	9,815	9,815
Services transferred over time	109,522	–	109,522
Total revenue from contracts with customers	109,522	9,815	119,337

Notes to Consolidated Financial Statements

31 December 2023

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:

	2023	2022
	HK$'000	*HK$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Construction services	**12,248**	18,369

(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:

	2023	2022
	HK$'000	*HK$'000*
Amounts expected to be recognised as revenue:		
Within one year	**75,321**	65,540

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.

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

	2023	2022
	HK$'000	*HK$'000*
Other income		
Interest income	**4,876**	5,095
Sale of scrap materials	**268**	–
Government grants *(note i)*	**1,085**	1,670
Dividend income from equity investments designated at fair value through other comprehensive income	**1,298**	2,301
Income from exempted payables *(note ii)*	**7,928**	–
Others	**423**	2,297
	15,878	11,363
Other gains		
Gain on disposal of a subsidiary *(note 35)*	–	2,965
Gain on partial disposal of an associate *(note 17)*	**938**	–
	938	2,965
	16,816	14,328

Notes:

(i) 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.

(ii) In prior year, the Group has undergone certain litigation proceedings with its subcontractors in regard of the unsettled construction costs. During the year ended 31 December 2023, the litigation was finalised and resulted in releasing the provision previously made by the Group to profit or loss.

Notes to Consolidated Financial Statements

31 December 2023

6. PROFIT (LOSS) BEFORE TAX

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

	Notes	**2023**	2022
		HK$'000	*HK$'000*
Cost of inventories sold		**1,812**	9,410
Cost of services provided		**56,789**	94,897
Depreciation of property, plant and equipment	*13*	**6,881**	12,275
Depreciation of right-of-use assets	*15(a)*	**821**	934
Research and development costs		**1,931**	2,823
Short term lease payments		**8**	8
Auditor's remuneration		**1,665**	1,161
Employee benefit expense (including directors' and chief executives' remuneration):			
Wages and salaries		**32,692**	45,075
Pension scheme contributions		**3,660**	2,336
		36,352	47,411
Impairment loss on properties held for sale		**600**	–
Impairment loss/write off of inventories*		**619**	–
Impairment loss on property, plant and equipment		**3,519**	–
Fair value loss on financial assets at fair value through profit or loss*		**289**	161
Loss on disposal of an associate*		**–**	51
Loss on disposal of property, plant and equipment*		**772**	72

* Those items are included as "other expenses and losses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2023	2022
	HK$'000	*HK$'000*
Interest on other borrowing *(note 29)*	**727**	1,445
Interest on lease liabilities *(note 15(b))*	**3,448**	3,910
	4,175	5,355

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:

	2023 HK$'000	2022 HK$'000
Fees	**650**	765
Other emoluments:		
Salaries, allowances and benefits in kind	**5,419**	7,724
Equity-settled share award expense	**702**	–
Pension scheme contributions	**54**	56
	6,175	7,780
	6,825	8,545

During the year ended 31 December 2023, certain directors were granted share award, 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 33 to the consolidated financial statements. The fair value of such award was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

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

	Fees HK$'000	Equity-settled share award expense HK$'000	Total remuneration HK$'000
2023			
Mr. Wu Qiang	**170**	**78**	**248**
Mr. Jia Wenzeng *(note (8))*	**143**	**78**	**221**
Mr. Wu Desheng *(note (9))*	**143**	**78**	**221**
Mr. Guan Chenghua	**170**	**78**	**248**
Mr. Zhang Honghai *(note (10))*	**24**	**–**	**24**
	650	**312**	**962**
2022			
Mr. Wu Qiang	170	–	170
Mr. Jia Wenzeng	170	–	170
Mr. Wu Desheng	170	–	170
Mr. Guo Qingui *(note (6))*	85	–	85
Mr. Guan Chenghua	170	–	170
	765	–	765

Notes to Consolidated Financial Statements

31 December 2023

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$'000	Equity-settled share award expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2023				
Chief executive:				
Mr. Yang Mingzhong	916	–	18	934
	916	–	18	934
Executive directors:				
Ms. Chan Wai Kay, Katherine	1,650	117	18	1,785
Mr. Xu Shengheng	2,500	117	18	2,635
Mr. Dai Qi	173	–	–	173
	4,323	234	36	4,593
Non-executive directors:				
Ms. Liu Ening	60	78	–	138
Mr. Yang Wei *(note (11))*	31	–	–	31
Mr. Zhang Yiying	60	78	–	138
Mr. Liao Yuan *(note (12))*	29	–	–	29
	180	156	–	336
	5,419	390	54	5,863

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

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

	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2022			
Chief executives:			
Mr. Xue Jiangyun *(note (5))*	748	–	748
Mr. Yang Mingzhong *(note (7))*	49	2	51
	797	2	799
Executive directors:			
Mr. Wang Manquan *(note (4))*	1,055	18	1,073
Mr. Pan Ya *(note (2))*	598	–	598
Ms. Chan Wai Kay, Katherine	1,470	18	1,488
Mr. Xu Shengheng	2,500	18	2,518
Mr. Dai Qi	354	–	354
Ms. Wang Yan *(note (1))*	324	–	324
Ms. Hao Xia *(note (3))*	91	–	91
Mr. Xue Jiangyun *(note (5))*	355	–	355
	6,747	54	6,801
Non-executive directors:			
Ms. Liu Ening	60	–	60
Mr. Yang Wei *(note (11))*	60	–	60
Mr. Zhang Yiying	60	–	60
	180	–	180
	7,724	56	7,780

Notes to Consolidated Financial Statements

31 December 2023

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

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

Notes:

(1) Ms. Wang Yan resigned as executive director with effect from 14 June 2022.

(2) Mr. Pan Ya was appointed as the Chief Financial Officer effective from 18 February 2022 and appointed as executive director effect from 14 March 2022. He resigned as executive director effective on 30 June 2022.

(3) Ms. Hao Xia resigned as an executive director on 18 February 2022.

(4) Mr. Wang Manquan resigned as executive director of the Company with effect from 30 June 2022, but he remained as the Chief Security Officer and vice president of the Group. Mr. Wang resigned as a Chief Security Officer and vice president on 31 December 2022.

(5) Mr. Xue Jiangyun was appointed as executive director and the Chief Executive Officer with effect from 14 March 2022 and retired as executive director of the Company on 30 June 2022. Mr. Xue resigned as a Chief Executive Officer and re-designated as a Chief Engineer Officer on 2 December 2022 of the Group.

(6) Mr. Guo Qingui retired as independent non-executive director with effective on 30 June 2022.

(7) Mr. Yang Mingzhong was appointed as Chief Executive Officer with effective on 2 December 2022.

(8) Mr. Jia Wenzeng resigned as independent non-executive director with effective on 4 November 2023.

(9) Mr. Wu Desheng resigned as independent non-executive director with effective on 4 November 2023.

(10) Mr. Zhang Honghai was appointed as independent non-executive director with effective on 10 November 2023.

(11) Mr. Yang Wei resigned as non-executive director with effective on 5 July 2023.

(12) Mr. Liao Yuan was appointed as non-executive director with effective on 5 July 2023.

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 two directors (2022: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of three (2022: one) highest paid employee who is neither a director nor chief executive of the Company are as follows:

	2023	2022
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**2,550**	768
Pension scheme contributions	**36**	18
	2,586	786

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	
	2023	2022
Nil to HK$1,000,000	**3**	1
	3	1

10. TAXATION

Pursuant to the laws and regulations of the Cayman Islands and the British Virgin Islands ("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 2023 (2022: 15%).

	2023	2022
	HK$'000	*HK$'000*
Current – PRC Enterprise Income Tax	**3,801**	1,762
Over-provision in prior years	**–**	(23,097)
Deferred taxation *(note 31)*	**(1,432)**	(908)
Taxation for the year	**2,369**	(22,243)

Notes to Consolidated Financial Statements

31 December 2023

10. TAXATION *(Continued)*

A reconciliation of taxation applicable to profit/(loss) before tax at statutory tax 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:

	2023 *HK$'000*	2022 *HK$'000*
Profit/(loss) before tax	**7,091**	(157,706)
Tax at statutory tax rate of 25%	**1,773**	(39,427)
Tax effect of share of results of a joint venture and associates	**(923)**	537
Tax losses utilised from previous periods	**(2,354)**	(2,450)
Income not subject to tax	**(553)**	(511)
Expenses not deductible for tax	**6,915**	7,367
Special deduction of research and development costs	**(350)**	–
Utilisation of deductible temporary differences previously not recognised	**(9,747)**	–
Tax losses and deductible temporary differences not recognised	**7,659**	35,516
Over-provision in prior years	**–**	(23,097)
Tax effect of income concessionary rate	**(51)**	(178)
Taxation for the year	**2,369**	(22,243)

11. DIVIDENDS

During the years ended 31 December 2023 and 2022, 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 2023 has been proposed by the directors of the Company (2022: nil).

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to owners of the Company, and the number of ordinary shares of 4,526,925,000 (2022: 4,526,925,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2023 *HK$'000*	2022 *HK$'000*
Profit/(loss) attributable to owners of the Company	**9,475**	(134,332)

	Number of shares	
	2023 *'000*	2022 *'000*
Shares		
Number of ordinary shares in issue during the year used in the basic and diluted earnings/(loss) per share calculations	**4,526,925**	4,526,925

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 2023							
At 1 January 2023:							
Cost or valuation	154,965	3,627	90,935	3,260	12,796	9,570	275,153
Accumulated depreciation and impairment	–	(3,609)	(78,370)	(3,170)	(12,039)	(9,292)	(106,480)
Net carrying amount	154,965	18	12,565	90	757	278	168,673
At 1 January 2023, net of accumulated depreciation and impairment	154,965	18	12,565	90	757	278	168,673
Disposals	–	–	(1,370)	–	–	(53)	(1,423)
Depreciation provided during the year	(4,827)	–	(2,027)	(20)	(5)	(2)	(6,881)
Revaluation	(9,630)	–	–	–	–	–	(9,630)
Impairment loss recognised in profit or loss	(3,519)	–	–	–	–	–	(3,519)
Exchange realignment	(437)	(1)	(155)	(2)	(12)	(4)	(611)
At 31 December 2023, net of accumulated depreciation and impairment	136,552	17	9,013	68	740	219	146,609
At 31 December 2023:							
Cost or valuation	136,552	3,617	83,127	3,219	12,796	8,142	247,453
Accumulated depreciation and impairment	–	(3,600)	(74,114)	(3,151)	(12,056)	(7,923)	(100,844)
Net carrying amount	136,552	17	9,013	68	740	219	146,609

Notes to Consolidated Financial Statements

31 December 2023

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 2022							
At 1 January 2022:							
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
At 1 January 2022, net of accumulated depreciation and impairment	178,498	85	18,782	206	3,112	369	201,052
Disposals	–	–	(72)	–	–	–	(72)
Depreciation provided during the year	(5,152)	(47)	(4,825)	(95)	(2,091)	(65)	(12,275)
Revaluation	(3,440)	–	–	–	–	–	(3,440)
Exchange realignment	(14,941)	(20)	(1,320)	(21)	(264)	(26)	(16,592)
At 31 December 2022, net of accumulated depreciation and impairment	154,965	18	12,565	90	757	278	168,673
At 31 December 2022:							
Cost or valuation	154,965	3,627	90,935	3,260	12,796	9,570	275,153
Accumulated depreciation and impairment	–	(3,609)	(78,370)	(3,170)	(12,039)	(9,292)	(106,480)
Net carrying amount	154,965	18	12,565	90	757	278	168,673

The Group's leasehold land and buildings were revalued individually at the end of the reporting period by CHFT Advisory and Appraisal Limited (2022: Peak Vision Appraisals Limited), an independent external valuer, at an aggregate open market value of HK$136,552,000 (2022: HK$154,965,000) based on their existing use.

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 2023 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, the PRC	–	–	**136,552**	**136,552**

	Fair value measurement as at 31 December 2022 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, the PRC	–	–	154,965	154,965

During both years, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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

	Office buildings in the PRC
	HK$'000
Carrying amount at 1 January 2022	178,498
Depreciation during the year	(5,152)
Exchange realignment	(14,941)
Revaluation recognised in other comprehensive income	(3,440)
Carrying amount at 31 December 2022 and 1 January 2023	154,965
Depreciation during the year	(4,827)
Exchange realignment	(437)
Impairment loss recognised in profit or loss	(3,519)
Revaluation recognised in other comprehensive income	(9,630)
Carrying amount at 31 December 2023	136,552

Notes to Consolidated Financial Statements

31 December 2023

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

Fair value hierarchy *(Continued)*

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

Carrying value of leasehold land and buildings held by the Group	Valuation techniques	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
Office buildings, the PRC	Income approach (2022: income approach)	Market yield of 6.00% (2022: 6.18%)	An increase in the market yield would result in a decrease in fair value
		Market unit rent of RMB4.32 (2022: RMB4.74) per sq.m. per day	An increase in the market unit rent would result in an increase in fair value

14. INVESTMENT PROPERTIES

	2023	2022
	HK$'000	*HK$'000*
Carrying amount at 1 January	**127,001**	138,699
Exchange realignment	**(1,799)**	(11,756)
Fair value changes	**(1,499)**	58
Carrying amount at 31 December	**123,703**	127,001

As at 31 December 2023, the Group was in the process of obtaining the ownership certificates for certain investment properties of a carrying amount of approximately HK$123,703,000 (2022: HK$127,001,000). 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.

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 2023 based on valuations performed by an independent external professional qualified valuer, CHFT Advisory and Appraisal Ltd (2022: Peak Vision Appraisals Limited).

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

14. INVESTMENT PROPERTIES *(Continued)*

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 2023 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	–	–	**123,703**	**123,703**

	Fair value measurement as at 31 December 2022 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	–	127,001	–	127,001

The reconciliation of Level 3 fair value measurements of investment properties on recurring basis is as follows:

	Industrial and ancillary properties *HK$'000*
At 31 December 2022 and 1 January 2023	–
Transfers into Level 3	127,001
Fair value changes	(1,499)
Exchange realignment	(1,799)
At 31 December 2023	123,703

Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period. Transfers into and out of levels of the fair value hierarchy are primarily attributable to observability of valuation inputs and price transparency. During the year, The investment properties were transferred from Level 2 to Level 3 of the fair value hierarchy due to a lack of observable market transactions and price information.

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

Carrying value of investment properties held by the Group	**Valuation techniques**	**Significant unobservable inputs**	**Relationship of significant unobservable inputs to fair value**
Industrial and ancillary property in the PRC	Income approach (2022 : Direct comparison approach)	Market yield of 5.00% (2022: N/A)	An increase in the market yield would result in a decrease in fair value (2022: N/A)
		Market unit rent of RMB1.30 per sq.m. per day (2022: N/A)	An increase in the market unit rent would result in an increase in fair value (2022: N/A)

Notes to Consolidated Financial Statements

31 December 2023

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of property used in its operations. Leases of property generally have lease terms between 1 and 30 years.

(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:

	Leased property *HK$'000*
As at 1 January 2022	178
New leases	2,378
Depreciation charge	(934)
Exchange realignment	(99)
As at 31 December 2022 and 1 January 2023	1,523
Depreciation charge	(821)
Exchange realignment	(10)
As at 31 December 2023	692

(b) *Lease liabilities*

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

	2023 ***HK$'000***	2022 *HK$'000*
Carrying amount at 1 January	**80,646**	92,665
New leases	**–**	2,378
Accretion of interest recognised during the year	**3,448**	3,910
Payments	**(9,908)**	(10,423)
Exchange realignment	**(1,092)**	(7,884)
Carrying amount at 31 December	**73,094**	80,646
Analysed into:		
Current portion	**6,455**	6,796
Non-current portion	**66,639**	73,850
	73,094	80,646

The maturity analysis of lease liabilities is disclosed in note 43 to the consolidated financial statements.

15. LEASES *(Continued)*

The Group as a lessee *(Continued)*

***(b) Lease liabilities** (Continued)*

The lease liabilities included sublease arrangement that the Company has entered into with 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 finance lease receivables at the sublease commencement date, continued to account for the original lease liability in accordance with the lessee accounting model.

The Group as a lessor

The Group leases its investment properties consisting of two 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$5,648,000 (2022: HK$91,000), details of which are included in note 5 to the consolidated financial statements.

At 31 December 2023 and 2022, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2023	2022
	HK$'000	*HK$'000*
Within one year	**5,623**	5,690
After one year but within two years	**5,816**	5,881
After two years but within three years	**6,021**	6,083
After three years but within four years	**6,238**	6,297
After four years but within five years	**4,483**	6,524
After five years	**11,979**	17,217
	40,160	47,692

16. INVESTMENT IN A JOINT VENTURE

	2023	2022
	HK$'000	*HK$'000*
Investment in a joint venture	**3,906**	1,293

The Group's other payable balances due to a joint venture are disclosed in note 25 to the consolidated financial statements.

Notes to Consolidated Financial Statements

31 December 2023

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

Particulars of the Group's joint venture as at 31 December 2023 and 2022 are as follows:

			Percentage of			
Name	Particulars of issued shares held	Place of registration and business	Ownership interest	Voting power	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.

The following table illustrates the financial information of Zhejiang Wanhe:

	2023	2022
	HK$'000	*HK$'000*
Current assets	**27,183**	23,850
Non-current assets	**10,615**	7,110
Current liabilities	**(24,742)**	(25,759)
Net assets	**13,056**	5,201
Reconciliation to the Group's interest in the joint venture:		
Proportion of the Group's ownership	**33%**	33%
Group's share of net assets of the joint venture, excluding goodwill	**4,337**	1,728
Other	**(431)**	(435)
Carrying amount of the investment	**3,906**	1,293
Revenue	**86,309**	65,714
Profit for the year	**7,968**	304
Other comprehensive expense	**(102)**	(187)
Total comprehensive income for the year	**7,866**	117
Dividend received	**–**	–

	2023	2022
	HK$'000	*HK$'000*
Share of the joint venture's profit for the year	**2,647**	101
Share of the joint venture's other comprehensive expense	**(34)**	(62)
Share of the joint venture's total comprehensive income	**2,613**	39

17. INVESTMENTS IN ASSOCIATES

	2023	2022
	HK$'000	*HK$'000*
Share of net assets	**27,720**	47,498
Goodwill on acquisition	**482**	482
	28,202	47,980

Particulars of the Group's associates as at 31 December 2023 and 2022 are as follows:

Name	**Particulars of issued shares**	**Place of incorporation/ registration and business**	**Percentage of ownership interest attributable to the Group**		**Principal activities**
			2023	**2022**	
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	49	Production and sale of machines and shallow geothermal energy systems
Hongyuan Shallow Ground Heat Pump Technology Co., Ltd.* ("HSG", "宏源地能熱泵科技有限公司") *(note)*	Registered capital of RMB50,000,000	PRC/Mainland China	15	49	Trading of the shallow geothermal energy systems

* 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.

Note:

During the year ended 31 December 2023, the Group disposed its holding of 34% equity interest in Hong Yuan Ground Source Heating Pump Technology Co., Ltd* ("HSG", "宏源地能熱泵科技有限公司"), with a consideration of RMB19,618,000 (equivalent to approximately HK$21,379,000) and the Group's equity interest in HSG was decreased from 49% to 15%, resulting in a gain on partial disposal of approximately HK$938,000. Immediately upon completion of the disposal, HSG continued to be classified as an associate.

Notes to Consolidated Financial Statements

31 December 2023

17. INVESTMENTS IN ASSOCIATES *(Continued)*

BEHP and HSG, which are considered material associates 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:

	2023	2022
	HK$'000	*HK$'000*
Current assets	**57,333**	58,853
Non-current assets	**2,757**	3,656
Current liabilities	**(25,690)**	(21,759)
Net assets	**34,400**	40,750
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	**16,856**	19,968
Goodwill on acquisition (less cumulative impairment)	**482**	482
Carrying amount of the investment	**17,338**	20,450
Revenue	**16,791**	12,938
Loss for the year	**(5,938)**	(12,657)
Other comprehensive expense	**(412)**	(4,095)
Total comprehensive expense for the year	**(6,350)**	(16,752)

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

	2023	2022
	HK$'000	*HK$'000*
Current assets	**282,562**	213,554
Non-current assets	**29,985**	20,399
Current liabilities	**(238,938)**	(177,530)
Non-current liabilities	**(3)**	(240)
Net assets	**73,606**	56,183
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**15%**	49%
Group's share of net assets of the associate, excluding goodwill	**11,041**	27,530
Other	**(177)**	–
Carrying amount of the investment	**10,864**	27,530
Revenue	**627,200**	367,272
Profit for the year	**17,521**	8,065
Other comprehensive expense	**(98)**	(4,550)
Total comprehensive income for the year	**17,423**	3,515

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

	2023 HK$'000	2022 HK$'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value		
Beijing Hisign Technology Co., Ltd.	**789**	1,670
China Asset Management – Ever Source overseas oriented asset management plan	**54,972**	55,687
	55,761	57,357
Unlisted equity investments, at fair value		
Beijing Life Insurance Co., Ltd. *(note)*	**261,530**	265,308
	317,291	322,665
Less: Non-current portion	**(55,761)**	(57,357)
Current portion	**261,530**	265,308

The above equity investments were irrevocably designated at fair value through other comprehensive income as the directors of the Company considers these investments to be strategic in nature. During the year ended 31 December 2023, the Group received dividends in the amount of HK$1,298,000 (2022: HK$2,301,000) and recognised in "other income" in profit or loss.

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 Company passed the ordinary resolution in respect of the equity transfer agreement.

In November 2021, Ever Source Investment 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.

Notes to Consolidated Financial Statements

31 December 2023

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

Note: (Continued)

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. As at 31 December 2023, Ever Source Investment's bank account with Beijing Rural Commercial Bank has been frozen with the amount of RMB50,275 (2022: RMB50,275).

As at 31 December 2023 and 2022, the Group has received the consideration of RMB237,000,000 and included in "other payables" 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.

19. INVENTORIES

	2023	2022
	HK$'000	*HK$'000*
Raw materials	**12,861**	15,269
Finished goods	**772**	552
	13,633	15,821

20. PROPERTIES HELD FOR SALE

	2023	2022
	HK$'000	*HK$'000*
At 1 January	**303,949**	335,656
Exchange realignment	**(4,323)**	(27,921)
Less: Impairment loss	**(600)**	(3,786)
At 31 December	**299,026**	303,949

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

21. CONTRACT ASSETS AND CONTRACT LIABILITIES

	2023	2022
	HK$'000	*HK$'000*
Contract assets arising from:		
Construction services	**446,227**	505,048
Less: Impairment allowance	**(410,462)**	(469,566)
	35,765	35,482
Contract liabilities arising from:		
Construction services	**38,453**	33,412

Gross carrying amounts of contract assets as at 1 January 2022 was approximately HK$574,700,000, while contract liabilities as at 1 January 2022 was approximately to HK$46,759,000.

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. During the year ended 31 December 2023, a reversal of impairment loss of HK$41,599,000 (2022: impairment loss of HK$63,323,000) was recognised as an allowance for ECLs on contract assets in to profit or loss. The Group's trading terms and credit policy with customers are disclosed in note 22 to the consolidated financial statements.

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

	2023	2022
	HK$'000	*HK$'000*
Within one year	**35,765**	35,482

Notes to Consolidated Financial Statements

31 December 2023

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

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

	2023	2022
	HK$'000	*HK$'000*
At beginning of year	**469,566**	458,532
(Reversal of impairment loss)/impairment loss, net	**(41,599)**	63,323
Release upon disposal of a subsidiary	**–**	(12,032)
Amounts written off as uncollectible *(note)*	**(11,403)**	–
Exchange realignment	**(6,102)**	(40,257)
At end of year	**410,462**	469,566

Note: During the year ended 31 December 2023, certain debtors have been liquidated and certain legal cases have been finalised and therefore amounting of HK$11,403,000 in respect of such debtors have been fully written off.

The management has actively taken legal actions against projects which have been long outstanding for several years in the recent years and identified that certain debtors were in financial difficulty, or in liquidation or in cessation of business, and therefore, the management has considered those debtors were assessed as significant increase in credit risk and individual assessment are performed. As a result, contract assets in relation to those debtors amounting to HK$49,706,000 (2022: HK$32,018,000) have been assessed as credit impaired and full impairment has been provided as at 31 December 2023.

Certain contract assets are initially recognised for revenue earned from the provision of construction services for the infrastructures during the period of construction under the service concession arrangements. Pursuant to the service concession agreements, the Group receives no payment from the grantors during the construction period and receives service fees when the relevant provision of services are rendered. The receivables under service concession arrangements (including the contract assets therein) are not yet due for payment and will be settled by service fees to be received during the operating periods of the service concession arrangements. Amounts billed will then be transferred to trade receivables. The Group had commenced for such projects in 2016, and the amount are expected to be recovered during those period of time throughout 5 years up to 2021. Therefore, the expected credit loss rate for the Group's contract assets and receivables under service concession arrangements is applying a minimal rate in previous years. The management has reviewed the construction services and considered that the debtors are in financial difficulty, and therefore, the management has assessed the balances individually and considered they are credit impaired and expected credit loss allowance of a total of HK$30,002,000 (2022: HK$55,964,000) has provided as at 31 December 2023.

For remaining balances, 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, historical repayment of debtors and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

As at 31 December 2023

	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	**5.07%**	**28.48%**	**45.48%**	**73.19%**	**86.37%**	**100%**	**94.62%**
Gross carrying amount *(HK$'000)*	**4,963**	**9,794**	**5,495**	**10,219**	**10,284**	**308,853**	**349,608**
Expected credit losses *(HK$'000)*	**252**	**2,789**	**2,499**	**7,479**	**8,882**	**308,853**	**330,754**

As at 31 December 2022

	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%	100%	100%	100%	94.36%
Gross carrying amount *(HK$'000)*	10,992	12,303	11,644	13,028	17,078	339,329	404,374
Expected credit losses *(HK$'000)*	552	4,498	7,099	13,028	17,078	339,329	381,584

Contract liabilities include short-term advances received to deliver construction services.

22. TRADE RECEIVABLES

	2023 *HK$'000*	2022 *HK$'000*
Trade receivables	**169,196**	207,206
Less: Impairment allowance	**(166,062)**	(189,786)
Trade receivables, net	**3,134**	17,420
Finance lease receivables	**69,902**	71,175
Less: Non-current portion (net of impairment)	**(65,946)**	(65,468)
Current portion	**7,090**	23,127

In prior year, 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 net investment included in trade receivables at the commencement date of the sublease arrangement, continued to account for the original lease liability in accordance with the lessee accounting model. At 31 December 2023, the current portion and non-current portion of the respective finance lease receivables amounted to RMB3,585,000 (equivalent to HK$3,956,000) (2022: RMB5,098,000) (equivalent to approximately HK$5,707,000) and RMB59,761,000 (equivalent to HK$65,946,000) (2022: RMB58,344,000) (equivalent to approximately HK$65,468,000), respectively.

Notes to Consolidated Financial Statements

31 December 2023

22. TRADE RECEIVABLES *(Continued)*

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.

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

	2023	2022
	HK$'000	*HK$'000*
Within 90 days	**1,140**	5,574
91 to 180 days	**493**	648
181 to 365 days	**969**	3,494
Over 365 days	**532**	7,704
	3,134	17,420

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

	2023	2022
	HK$'000	*HK$'000*
At beginning of year	**189,786**	165,017
Release upon disposal of a subsidiary	**–**	(183)
Amounts written off as uncollectible	**(18,653)**	–
(Reversal of impairment loss)/impairment loss, net	**(2,378)**	38,289
Exchange realignment	**(2,693)**	(13,337)
At end of year	**166,062**	189,786

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 end of the reporting period about past events, current conditions and forecasts of future economic conditions.

The Group writes off trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs earlier. During the year ended 31 December 2023, in regard of finalisation of the legal cases, amounting of trade receivables HK$18,653,000 have been written off.

Certain debtors were either in financial difficulty, under liquidation or under litigation with the Company. Therefore, the management considered that those trade receivables were credit-impaired at the end of the reporting period and the amounts were full impairment and has been recognised as an allowance for expected credit losses of HK$47,804,000 (2022: HK$44,745,000) as at 31 December 2023.

22. TRADE 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 2023

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	17.34%	62.09%	68.39%	97.53%	100.00%	100.00%	69.48%
Gross carrying amount *(HK$'000)*	57,491	3,944	5,274	1,822	4,495	93,166	166,192
Expected credit losses *(HK$'000)*	9,972	2,449	3,607	1,777	4,495	93,166	115,466

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	1.63%	52.90%	72.64%	93.57%	100.00%	100.00%	11.12%
Gross carrying amount *(HK$'000)*	22,103	1,049	223	218	68	1,441	25,102
Expected credit losses *(HK$'000)*	362	555	162	204	68	1,441	2,792

Notes to Consolidated Financial Statements

31 December 2023

22. TRADE RECEIVABLES *(Continued)*

As at 31 December 2022

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	19.31%	51.49%	66.88%	81.82%	87.50%	100%	74.60%
Gross carrying amount *(HK$'000)*	51,165	6,428	4,937	6,019	11,130	111,353	191,032
Expected credit losses *(HK$'000)*	9,878	3,310	3,302	4,925	9,739	111,353	142,507

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	0.41%	52.74%	72.21%	81.69%	87.41%	100%	5.95%
Gross carrying amount *(HK$'000)*	39,769	347	975	71	143	1,299	42,604
Expected credit losses *(HK$'000)*	165	183	704	58	125	1,299	2,534

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023 **HK$'000**	2022 HK$'000
Prepayments	**24,100**	31,894
Deposits	**9,881**	10,487
Consideration receivable *(note)*	**19,662**	–
Other receivables	**119,226**	111,295
Deposit paid for acquisition of investment properties	**1,593**	–
Less: Impairment allowance	**(89,175)**	(88,547)
	85,287	65,129
Less: Non-current portion	**(1,593)**	–
Current portion	**83,694**	65,129

Note: The consideration receivable represented the consideration outstanding for the partial disposal of an associate (note 17) during the year ended 31 December 2023.

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

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

	2023	2022
	HK$'000	*HK$'000*
At beginning of year	**88,547**	85,738
Release upon disposal of a subsidiary	**–**	(802)
Amounts written off as uncollectible *(note)*	**–**	(4,219)
Exchange realignment	**(1,269)**	(7,640)
Impairment loss, net	**1,897**	15,470
At end of year	**89,175**	88,547

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

Note: The write off to other receivables directly as the debtors were liquidated during the year ended 31 December 2022.

24. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

As at 31 December 2023, the Group's amounts due from related companies were nil (2022: RMB264,000) (equivalent to HK$295,000), which were construction receivables from China Energy Conservation and Environmental Protection Group's ("CECEP") subsidiaries.

As at 31 December 2023, the Group's amounts due to related companies included a guarantee fee payable of RMB25,618,000 (equivalent to HK$28,270,000) (2022: RMB25,618,000 (equivalent to HK$28,678,000)) provided by CECEP. The remaining balance of HK$2,933,000 (2022: nil) is unsecured, non-interest bearing and repayable on demand.

25. AMOUNTS DUE TO ASSOCIATES AND A JOINT VENTURE

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

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023	2022
	HK$'000	*HK$'000*
Listed equity investments, at fair value	**3,795**	2,880

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

Notes to Consolidated Financial Statements

31 December 2023

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

	2023	2022
	HK$'000	*HK$'000*
Cash and bank balances	**69,365**	45,253
Cash held at non-bank financial institutions	**188**	1,790
Restricted cash	**3,712**	60
Time deposits	**689**	19,460
	73,954	66,563
Less: Time deposits with original maturity over three months	**(689)**	(19,460)
Restricted cash	**(3,712)**	(60)
Cash and cash equivalents	**69,553**	47,043

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to HK$66,040,000 (2022: HK$38,160,000). 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.

28. TRADE PAYABLES

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

	2023	2022
	HK$'000	*HK$'000*
Within 90 days	**35,433**	39,973
91 to 180 days	**16,399**	16,372
181 to 365 days	**17,320**	12,261
Over 365 days	**88,089**	131,195
	157,241	199,801

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

29. OTHER PAYABLES AND ACCRUALS

	2023	2022
	HK$'000	*HK$'000*
Accruals	**30,346**	42,990
Advance received for disposal of equity investments designated at fair value through other comprehensive income *(note 18)*	**261,530**	265,308
Other borrowing *(note (i))*	**2,979**	1,878
Other payables *(note (ii))*	**120,170**	98,307
	415,025	408,483

Notes:

(i) Other borrowing represented borrowing of HK$2,979,000 (2022: HK$1,878,000) granted from an independent third party, which is unsecured, carried interest at fixed interest rate of 7.56% (2022: 7.56%) per annum, and repayable on 31 December 2024 or on demand (2022: on 31 December 2023 or on demand).

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

30. DEFERRED INCOME

	2023	2022
	HK$'000	*HK$'000*
At 1 January	**8,955**	9,785
Exchange realignment	**(127)**	(830)
At 31 December	**8,828**	8,955

Government grants were designated for certain projects. The amount is stated as a non-current liability as at 31 December 2023 and 2022 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 the end of the reporting period.

Notes to Consolidated Financial Statements

31 December 2023

31. DEFERRED TAX

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

Deferred tax liabilities

	2023				
	Fair value changes of investment properties *HK$'000*	**Properties held for sale** *HK$'000*	**Fair value changes of financial assets at fair value through other comprehensive income** *HK$'000*	**Lease arrangement** *HK$'000*	**Total** *HK$'000*
At 1 January 2023	**625**	**27,643**	**16,018**	**105**	**44,391**
Deferred tax credited to the profit or loss *(note 10)*	**(373)**	**(1,059)**	**–**	**–**	**(1,432)**
Deferred tax credited to capital reserve	**–**	**–**	**(219)**	**–**	**(219)**
Exchange realignment	**(9)**	**522**	**(205)**	**(1)**	**307**
At 31 December 2023	**243**	**27,106**	**15,594**	**104**	**43,047**

	2022				
	Fair value changes of investment properties *HK$'000*	Properties held for sale *HK$'000*	Fair value changes of financial assets at fair value through other comprehensive income *HK$'000*	Lease arrangement *HK$'000*	Total *HK$'000*
At 1 January 2022	668	31,684	18,011	125	50,488
Deferred tax charged/(credited) to the profit or loss *(note 10)*	14	(912)	–	(10)	(908)
Deferred tax credited to capital reserve	–	–	(466)	–	(466)
Exchange realignment	(57)	(3,129)	(1,527)	(10)	(4,723)
At 31 December 2022	625	27,643	16,018	105	44,391

31. DEFERRED TAX *(Continued)*

Deferred tax assets

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

	2023	2022
	HK$'000	*HK$'000*
Tax losses	**79,397**	320,256
Deductible temporary differences	**671,787**	833,816
	751,184	1,154,072

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 2023 and 2022, 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 established in Mainland China. In the opinion of the directors of the Company, it is not probable that these subsidiaries and will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised are approximately of HK$114,307,000 at 31 December 2023 (2022: HK$87,613,000).

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

32. SHARE CAPITAL

Shares

	2023	2022
	HK$'000	*HK$'000*
Issued and fully paid:		
4,526,925,000 (2022: 4,526,925,000) ordinary shares of US$0.01 each	**353,043**	353,043

Notes to Consolidated Financial Statements

31 December 2023

33. 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 2022, the Company has not purchased any shares under Share Award Scheme.

During the year ended 31 December 2023, the Company granted 44,500,000 (2022: Nil) Award Shares through repurchase from the public market to certain directors and employees of the Group of which 7,500,000 (2022: Nil) Award Shares is cancelled.

The Group recognised the total expenses of approximately HK$962,000 (2022: Nil) for the year ended 31 December 2023 in relation to Award Shares granted by the Company.

There were no outstanding of Award Shares as at 31 December 2023 and 2022.

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 12 October 2023 was HK$0.026 per share.

34. 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.

(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.

35. DISPOSAL OF A SUBSIDIARY

On 1 January 2022, a non-wholly owned subsidiary of the Company has terminated the cooperation agreement with an independent third party and lost the control over the subsidiary. The assets and liabilities of the subsidiary on the date of disposal included trade receivables, prepayments, other receivables and deposits, contract assets, cash and cash equivalent, trade payables, other payables and accruals, contract liabilities and non-controlling interests amounted to approximately HK$62,000, HK$104,000, HK$177,000, HK$30,000, HK$4,122,000, HK$6,491,000, HK$5,716,000 and HK$12,111,000 respectively, which aggregate to net liabilities of approximately HK$2,965,000. During the year ended 31 December 2022, a gain on disposal of a subsidiary of approximately HK$2,965,000 was recognised, with net cash outflows on disposal amounted to approximately HK$30,000.

Notes to Consolidated Financial Statements

31 December 2023

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

2023	**Lease liabilities**
	HK$'000
At 1 January 2023	**80,646**
Changes from financing cash flows	**(9,908)**
Accretion of interest recognised during the year	**3,448**
Exchange realignment	**(1,092)**
At 31 December 2023	**73,094**

2022	Lease liabilities
	HK$'000
At 1 January 2022	92,665
Changes from financing cash flows	(10,423)
Accretion of interest recognised during the year	3,910
Exchange realignment	(7,884)
New leases	2,378
At 31 December 2022	80,646

37. CONTINGENT LIABILITIES

At 31 December 2023, the Group did not have any contingent liabilities not provided for in the consolidated financial statements (2022: Nil).

38. PLEDGE OF ASSETS

As at 31 December 2023 and 2022, the Group had no charge on assets.

39. COMMITMENTS

At 31 December 2023 and 2022, the Group did not have any capital commitments contracted but not provided for at the end of the reporting period.

40. 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 24 and 25 to the consolidated financial statements.

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

	2023	2022
	HK$'000	*HK$'000*
Associates:		
Purchases of products	**6,840**	10,378
Rental income	**–**	82

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. During the year ended 31 December 2022, the lease has renewed and extended for 2 years to 2024, and addition of right-of-use assets and corresponding lease liabilities are recognised as HK$2,378,000 at the commencement date. As at 31 December 2023, the right-of-use assets and lease liabilities related to this lease arrangement were HK$158,000 (2022: HK$774,000) and HK$164,000 (2022: HK$793,000), respectively.

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

	2023	2022
	HK$'000	*HK$'000*
Short term employee benefits	**5,473**	6,570
Post-employment benefits	**54**	47
Total compensation paid to key management personnel	**5,527**	6,617

Further details of directors' and the chief executive's emoluments are included in note 8 to the consolidated financial statements.

Notes to Consolidated Financial Statements

31 December 2023

41. 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:

2023

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such	Equity investments	Financial assets at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments designated at fair value through other comprehensive income	–	317,291	–	317,291
Financial assets included in prepayments, other receivables and other assets	–	–	59,594	59,594
Trade receivables	–	–	73,036	73,036
Financial assets at fair value through profit or loss	3,795	–	–	3,795
Time deposits	–	–	689	689
Restricted cash	–	–	3,712	3,712
Cash and cash equivalents	–	–	69,553	69,553
	3,795	317,291	206,584	527,670

2023

Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Trade payables	157,241
Financial liabilities included in other payables and accruals	153,495
Amounts due to associates	18,035
Amounts due to related companies	31,203
Amount due to a joint venture	220
Lease liabilities	73,094
	433,288

41. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2022

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such	Equity investments	Financial assets at amortised cost	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity investments designated at fair value through other comprehensive income	–	322,665	–	322,665
Financial assets included in prepayments, other receivables and other assets	–	–	36,882	36,882
Trade receivables			88,595	88,595
Amounts due from related companies	–	–	295	295
Financial assets at fair value through profit or loss	2,880	–	–	2,880
Time deposits	–	–	19,460	19,460
Restricted cash	–	–	60	60
Cash and cash equivalents	–	–	47,043	47,043
	2,880	322,665	192,335	517,880

2022

Financial liabilities

	Financial liabilities at amortised cost
	HK$'000
Trade payables	199,801
Financial liabilities included in other payables and accruals	143,175
Amounts due to associates	18,364
Amounts due to related companies	28,678
Amount due to a joint venture	223
Lease liabilities	80,646
	470,887

Notes to Consolidated Financial Statements

31 December 2023

42. 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 receivables, trade payables, financial assets included in prepayments, other receivables and deposits, 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 the end of each reporting period, 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.

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 directors of the Company 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.

42. 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 2023

	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	**55,761**	**261,530**	**–**	**317,291**
Financial assets at fair value through profit or loss	**3,795**	**–**	**–**	**3,795**
	59,556	**261,530**	**–**	**321,086**

As at 31 December 2022

	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	57,357	265,308	–	322,665
Financial assets at fair value through profit or loss	2,880	–	–	2,880
	60,237	265,308	–	325,545

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 31 December 2023 (2022: Nil).

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2022: Nil).

Notes to Consolidated Financial Statements

31 December 2023

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise equity investments designated at fair value through other comprehensive income, equity investments at fair value through profit or loss, 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, interest rate risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

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.

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 2023

	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	3,712	–	–	–	3,712
Time deposits					
– Not yet past due	689	–	–	–	689
Contract assets*	–	–	96,619	349,608	446,227
Trade receivables*	–	–	47,804	191,294	239,098
Cash and cash equivalents					
– Not yet past due	69,553	–	–	–	69,553
Financial assets included in prepayments, other receivables and other assets**					
– Normal**	11,474	–	–	–	11,474
– Doubtful**	138,888	–	–	–	138,888
	224,316	–	144,423	540,902	909,641

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

Maximum exposure and year-end staging *(Continued)*

As at 31 December 2022

	12-month ECLs		Lifetime ECLs		
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Restricted cash					
– Not yet past due	60	–	–	–	60
Time deposits					
– Not yet past due	19,460	–	–	–	19,460
Contract assets*	–	–	100,674	404,374	505,048
Trade receivables*	–	–	44,745	233,636	278,381
Cash and cash equivalents					
– Not yet past due	47,043	–	–	–	47,043
Financial assets included in prepayments, other receivables and other assets**					
– Normal**	9,741	–	–	–	9,741
– Doubtful**	112,041	–	–	–	112,041
	188,345	–	132,497	650,932	971,774

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 22 and 21 to the consolidated 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".

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to bank deposit and other borrowing from an independent third party. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Notes to Consolidated Financial Statements

31 December 2023

43. 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:

	2023					
	Weighted average interest rate *(%)*	On demand *HK$'000*	Within one year *HK$'000*	One to five years *HK$'000*	Over five years *HK$'000*	Total *HK$'000*
Lease liabilities	4.80	–	9,332	48,699	30,163	88,194
Trade payables	–	–	157,241	–	–	157,241
Financial liabilities included in other payables and accruals	7.56	150,516	3,204	–	–	153,720
Amounts due to related companies	–	31,203	–	–	–	31,203
Amounts due to associates	–	18,035	–	–	–	18,035
Amount due to a joint venture	–	220	–	–	–	220
		199,974	169,777	48,699	30,163	448,613

	2022					
	Weighted average interest rate *(%)*	On demand *HK$'000*	Within one year *HK$'000*	One to five years *HK$'000*	Over five years *HK$'000*	Total *HK$'000*
Lease liabilities	4.80	–	9,984	28,625	60,840	99,449
Trade payables	–	–	199,801	–	–	199,801
Financial liabilities included in other payables and accruals	7.56	141,297	2,020	–	–	143,317
Amounts due to related companies	–	28,678	–	–	–	28,678
Amounts due to associates	–	18,364	–	–	–	18,364
Amount due to a joint venture	–	223	–	–	–	223
		188,562	211,805	28,625	60,840	489,832

43. 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 designated at fair value through other comprehensive income (note 18) and equity investments at fair value through profit or loss (note 26) as at 31 December 2023 and 2022.

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 designated 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 profit or loss.

2023	**Carrying amount of equity investments** *HK$'000*	**Change in equity** *HK$'000*	**Change in profit before tax** *HK$'000*
Investments listed in:			
Hong Kong – Equity investments at fair value through profit or loss	**3,795**	**–**	**190**
Others – Equity investments designated at fair value through other comprehensive income	**55,761**	**2,788**	**–**

2022	Carrying amount of equity investments *HK$'000*	Change in equity *HK$'000*	Change in loss before tax *HK$'000*
Investments listed in:			
Hong Kong – Equity investments at fair value through profit or loss	2,880	–	144
Others – Equity investments designated at fair value through other comprehensive income	57,357	2,868	–

The unlisted equity investment designated at fair value through other comprehensive income has stated at transaction price, it will not further subject to any changes in price in the market due to the restriction by the court order as stated in note 18 to the consolidated financial statements, the management considers there is no price risk in regard of such investment.

Notes to Consolidated Financial Statements

31 December 2023

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 2023 and 2022.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes lease liabilities, trade payables, financial liabilities included in other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the Company. The gearing ratios as at the end of the reporting periods were as follows:

	2023	2022
	HK$'000	*HK$'000*
Lease liabilities	**73,094**	80,646
Trade payables	**157,241**	199,801
Financial liabilities included in other payables and accruals	**153,495**	143,175
Less: Cash and cash equivalents	**(69,553)**	(47,043)
Net debt	**314,277**	376,579
Equity attributable to owners of the Company	**249,924**	250,815
Capital and net debt	**564,201**	627,394
Gearing ratio	**55.7%**	60.0%

44. EVENTS AFTER THE REPORTING PERIOD

(1) 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 RMB50,275 (2022: RMB50,275).

In November 2022, Ever Source Investment received a civil judgement (the "Civil Judgement") in respect of the litigation case No. (2021) Jing 01 Min Chu No.860 ((2021)京01民初860號）from the First Intermediate People's Court of Beijing (the "Beijing Court"). According to the Civil Judgement, the Beijing Court ruled that the Plaintiff Shanghai Gangze shall perform that (i) Shanghai Gangze shall compensate Ever Source Investment for the loss of legal fees of RMB200,000 within 10 days after this judgment takes into effect; and (ii) reject all claims from Shanghai Gangze. If Shanghai Gangze failed to perform its monetary obligation within the period specified in this judgment, it shall pay double the debt interest during the delayed performance period in accordance with the provisions of Article 260 of the Civil Procedure Law of the People's Republic of China. The acceptance fee of the case, the property preservation fee and the acceptance fee of the counterclaim case are all borne by Shanghai Gangze.

In December 2022, Shanghai Gangze filed an appeal and the second instance is in process up to the report date of these consolidated financial statements, the industrial and commercial registration has not been changed and Ever Source Investment is still a shareholder of Beijing Life.

The Company considered that the above court ruling has no significant adverse effect on the normal operation and financial of the Group, no provision on contingent liabilities should be provided as remote and the transaction is still valid. 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.

Notes to Consolidated Financial Statements

31 December 2023

44. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(2) On 27 October 2023, the Company entered into the conditional sales and purchase agreement ("Agreement") with the GBT Green Energy Holding Group Limited, (the "Vendor"), and Mr. Wang Chenglin*（王成林）(the "Guarantor"), pursuant to which the Vendor has conditionally agreed to sell and the Company has conditionally agreed to acquire 80% of the entire issued share capital of the Hydrogen Energy Technology Limited (the "Target Company"), at a maximum total consideration of HK$70,200,000 ("Consideration") through allotment and issuance of share capital of the Company at the issue price of HK$0.08 per share ("Consideration Share). The Consideration is subject to the actual earnings before interest and taxation, depreciation and amortisation of China Hydrogen Energy (Shenzhen) New Technology Co., Ltd.*（中氫新能力（深圳）新技術有限公司）a company incorporated in PRC specialises in hydrogen fuel cell powertrain systems for the automobile industry and has independent core technologies and intellectual property in the design, simulation, control, integration, and manufacture of these systems and ultimately owned by the Guarantor ("Restructured company") which would become the wholly-owned subsidiary of the Target Company after restructuring.

Subsequent to the reporting period, on 16 March 2024, the Company and the Vendor entered into a side letter supplemental to the Agreement (the "Side Letter") under which the parties have agreed to revise the terms relating to the Consideration and the conditions precedent under the Agreement.

In accordance with the Side Letter, the Vendor and the Guarantor jointly and severally, and irrevocably guarantee and undertake to the Company that (i) the actual audited net profit after taxation generated by Restructured Company for the year ending 31 December 2024 shall be not less than RMB22,000,000; and (b) the aggregate sum of actual audited net profit after taxation generated by Restructured Company for the years ending 31 December 2024 and 31 December 2025 shall be not less than RMB44,000,000.

The Consideration shall be subject to the actual audited net profit after taxation generated by the Restructured Company for the year ending 31 December 2024 and 2025 and to be settled in three instalments.

For details of the conditions and terms of the transactions as set forth in the Agreement and Side Letter, reference to the announcement dated on 27 October 2023, 18 March 2024 and 28 March 2024.

Up to the date of this report, the transaction is yet to be completed and there is no impact to the consolidated financial statements for the year ended 31 December 2023.

* *For identification purpose only*

45. 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:

	2023	2022
	HK$'000	*HK$'000*
NON-CURRENT ASSET		
Investments in subsidiaries	**–**	–
Total non-current asset	**–**	–
CURRENT ASSETS		
Amounts due from subsidiaries *(note (i))*	**394,201**	401,250
Prepayments, other receivables and deposits	**39**	39
Restricted cash	**3,654**	–
Cash and cash equivalents	**1,495**	568
Total current assets	**399,389**	401,857
NET CURRENT ASSETS	**399,389**	401,857
TOTAL ASSETS	**399,389**	401,857
Net assets	**399,389**	401,857
EQUITY		
Share capital	**353,043**	353,043
Shares held for Share Award Scheme	**(8,169)**	(8,169)
Other reserves *(note (ii))*	**54,515**	56,983
Total equity	**399,389**	401,857

Notes:

(i) The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

Notes to Consolidated Financial Statements

31 December 2023

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Notes: (Continued)

(ii) A summary of the Company's other reserves is as follows:

	Share premium	Shares held for Share Award Scheme	Contributed surplus	Capital reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2022	895,393	–	154,381	32,235	(1,022,220)	59,789
Total comprehensive expense for the year	–	–	–	–	(2,806)	(2,806)
At 31 December 2022 and 1 January 2023	895,393	–	154,381	32,235	(1,025,026)	56,983
Total comprehensive expense for the year	–	–	–	–	(2,468)	(2,468)
Shares purchased for Share Award Scheme	–	(962)	–	–	–	(962)
Equity-settled share award by Awarded Shares	–	962	–	–	–	962
At 31 December 2023	895,393	–	154,381	32,235	(1,027,494)	54,515

Chan Wai Kay, Katherine
Director

Dai Qi
Director

46. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2023, trade receivables of HK$1,593,000 (2022: Nil) were settled by transferring deposits paid for acquisition of two investment properties from a debtor.

During the year ended 31 December 2022, the Group renewed a leasing arrangement in respect of office premises. Right-of-use assets and lease liabilities of HK$2,378,000 (2023: Nil) were recognised at the commencement of the leases.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2024.

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				
	2023	2022	2021	2020	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**67,860**	119,428	176,835	230,862	345,537
Cost of sales	**(58,601)**	(104,307)	(145,595)	(184,728)	(261,559)
Gross profit	**9,259**	15,121	31,240	46,134	83,978
Gross profit margin	**14%**	13%	18%	20%	24%
Profit/(loss) before tax	**7,091**	(157,706)	(100,904)	(240,248)	(406,844)
Income tax (expense)/credit	**(2,369)**	22,243	(1,423)	(3,192)	(38,179)
Profit/(loss) for the year	**4,722**	(135,463)	(102,327)	(243,440)	(445,023)
Attributable to:					
– Owners of the Company	**9,475**	(134,332)	(97,329)	(242,399)	(441,039)
– Non-controlling interests	**(4,753)**	(1,131)	(4,998)	(1,041)	(3,984)
Earnings/(loss) per share					
– Basic (HK cents)	**0.21**	(2.97)	(2.20)	(5.46)	(10.59)
– Diluted (HK cents)	**0.21**	(2.97)	(2.20)	(5.46)	(10.59)

CONSOLIDATED ASSETS AND LIABILITIES

	2023	2022	2021	2020	2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**426,412**	469,295	588,249	636,707	1,380,996
Current assets	**778,487**	778,554	977,383	1,083,854	574,672
Current liabilities	**(807,795)**	(835,961)	(990,443)	(1,106,453)	(1,199,462)
Net current liabilities	**(29,308)**	(57,407)	(13,060)	(22,599)	(624,790)
Total assets less current liabilities	**397,104**	411,888	575,189	614,108	756,206
Non-current liabilities	**(118,514)**	(127,196)	(147,009)	(136,934)	(92,101)
Net assets	**278,590**	284,692	428,180	477,174	664,105
Total debt to equity ratio	**3.32**	3.38	2.66	2.61	1.94

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/ Commercial	Medium	Completed	–