

**GUANGDONG SYNTRUST GK TESTING AND CERTIFICATION TECH SERVICE  
CENTER CO., LTD.**

**INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEARS ENDED 31 DECEMBER 2021, 2022 AND 2023 AND THE SIX  
MONTHS ENDED 30 JUNE 2024**



## *Independent Auditor's Report*

To the Board of Directors of Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd.

### Opinion

#### *What we have audited*

The financial statements of Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd. (the "Company"), which are set out on pages 4 to 54, comprise:

- the balance sheets as at 31 December 2021, 2022 and 2023, and 30 June 2024;
- the statements of comprehensive income for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2024 (the "Relevant Periods");
- the statements of changes in equity for the Relevant Periods;
- the statements of cash flows for the Relevant Periods; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

#### *Our opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 2022 and 2023 and 30 June 2024, and of its financial performance and its cash flows for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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### Basis for Opinion

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

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

#### *Independence*

We are independent of the Company 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.

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### Other Matter

The comparative financial statements as at 1 January 2021 has not been audited.

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## Responsibilities of Directors for the Financial Statements

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

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

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## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the Company 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.





羅兵咸永道

### Restriction on Distribution and Use

The financial statements are prepared for the purpose of the preparation of financial information for inclusion in the prospectus of the Company in connection with the initial public offering of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the board of directors of the Company and should not be distributed to or used by any other parties for any purpose.

A large, stylized handwritten signature in black ink, appearing to be 'PricewaterhouseCoopers', is written over the company name and date.

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 26 August 2024

## I. FINANCIAL STATEMENTS OF THE COMPANY

### (a) Statements of Comprehensive Income

	Note	Year ended 31 December			Six months ended 30 June	
		2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Revenue	6	39,781	19,966	41,500	16,329	22,830
Cost of sales	7	(9,605)	(8,472)	(11,719)	(5,494)	(6,658)
<b>Gross profit</b>		<b>30,176</b>	<b>11,494</b>	<b>29,781</b>	<b>10,835</b>	<b>16,172</b>
General and administrative expenses	7	(4,726)	(6,383)	(10,157)	(3,703)	(5,485)
Research and development expenses	7	-	-	(113)	-	(280)
Net impairment losses on financial assets	3.1(b)	(2,121)	(1,380)	(1,317)	(1,589)	(127)
Other income		548	417	620	317	60
Other losses		-	(13)	(931)	-	(84)
<b>Operating profit</b>		<b>23,877</b>	<b>4,135</b>	<b>17,883</b>	<b>5,860</b>	<b>10,256</b>
Finance income	9	100	97	70	33	49
Finance costs	9	(254)	(281)	(219)	(142)	(488)
Finance costs – net	9	(154)	(184)	(149)	(109)	(439)
<b>Profit before income tax</b>		<b>23,723</b>	<b>3,951</b>	<b>17,734</b>	<b>5,751</b>	<b>9,817</b>
Income tax expense	10	(5,986)	(1,039)	(4,480)	(1,467)	(2,474)
<b>Net profit</b>		<b>17,737</b>	<b>2,912</b>	<b>13,254</b>	<b>4,284</b>	<b>7,343</b>
<b>Other comprehensive income, net of tax</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>17,737</b>	<b>2,912</b>	<b>13,254</b>	<b>4,284</b>	<b>7,343</b>
<b>Earnings per share attributable to ordinary equity holders of the Company</b>						
- Basic and diluted (expressed in RMB per share)	11	0.89	0.15	0.64	0.21	0.31

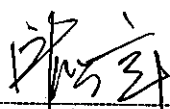
The notes on page 8 to 54 are integral parts of these financial statements.

(b) Balance sheets

Note	At at 1	As at 31 December			As at
	January	2021	2022	2023	30 June
		RMB'000	RMB'000	RMB'000	RMB'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	3,482	3,949	4,812	15,906
Right-of-use assets	14	1,127	1,953	2,974	37,362
Deferred tax assets	15	1,594	2,301	2,462	3,303
Intangible assets		62	79	69	339
Other receivables and prepayments	18	4,486	4,187	3,976	2,985
		<u>10,751</u>	<u>12,469</u>	<u>14,293</u>	<u>59,895</u>
<b>Current assets</b>					
Contract fulfilment costs	16	1,286	820	2,053	2,440
Inventory		-	-	-	233
Trade and other receivables and prepayments	18	25,162	36,599	35,843	55,304
Cash and cash equivalents	19	31,022	35,846	32,221	42,459
		<u>57,470</u>	<u>73,265</u>	<u>70,117</u>	<u>100,436</u>
<b>Total assets</b>		<u>68,221</u>	<u>85,734</u>	<u>84,410</u>	<u>160,331</u>
<b>EQUITY</b>					
Paid-in capital	20	489	489	1,820	-
Share capital	20	-	-	-	23,750
Reserves	21	910	910	910	58,504
Retained earnings		49,752	65,589	66,601	27,674
		<u>51,151</u>	<u>66,988</u>	<u>69,331</u>	<u>109,928</u>
<b>Total equity</b>		<u>51,151</u>	<u>66,988</u>	<u>69,331</u>	<u>109,928</u>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Lease liabilities	14	4,451	4,995	5,786	37,119
		<u>4,451</u>	<u>4,995</u>	<u>5,786</u>	<u>37,119</u>
<b>Current liabilities</b>					
Trade payables	22	608	105	738	492
Contract liabilities	6	1,158	750	1,060	1,232
Lease liabilities	14	563	391	693	1,483
Current income tax liabilities		5,971	7,652	2,016	994
Other payables and accruals	23	4,319	4,853	4,786	9,083
		<u>12,619</u>	<u>13,751</u>	<u>9,293</u>	<u>13,284</u>
<b>Total liabilities</b>		<u>17,070</u>	<u>18,746</u>	<u>15,079</u>	<u>50,403</u>
<b>Total equity and liabilities</b>		<u>68,221</u>	<u>85,734</u>	<u>84,410</u>	<u>160,331</u>

The notes on page 8 to 54 are integral parts of these financial statements.

Approved by the Board of Directors on 22 August 2024

  
Director

  
Director

**(c) Statements of Changes in Equity**

	Note	Paid-in capital RMB'000	Share capital RMB'000	Reserves RMB'000	Retained earnings RMB'000	Total RMB'000
<b>Balance at 1 January 2021 (Unaudited)</b>		489	-	910	49,752	51,151
Profit for the year		-	-	-	17,737	17,737
<b>Total comprehensive income</b>		-	-	-	17,737	17,737
Distribution of dividends	12	-	-	-	(1,900)	(1,900)
<b>Transactions with owners of the company</b>		-	-	-	(1,900)	(1,900)
<b>Balance at 31 December 2021</b>		<u>489</u>	<u>-</u>	<u>910</u>	<u>65,589</u>	<u>66,988</u>
<b>Balance at 1 January 2022</b>		489	-	910	65,589	66,988
Profit for the year		-	-	-	2,912	2,912
<b>Total comprehensive income</b>		-	-	-	2,912	2,912
Distribution of dividends	12	-	-	-	(1,900)	(1,900)
Capital contribution from an equity holder	20	1,331	-	-	-	1,331
<b>Transactions with owners of the company</b>		1,331	-	-	(1,900)	(569)
<b>Balance at 31 December 2022</b>		<u>1,820</u>	<u>-</u>	<u>910</u>	<u>66,601</u>	<u>69,331</u>
<b>Balance at 1 January 2023</b>		1,820	-	910	66,601	69,331
Profit for the year		-	-	-	13,254	13,254
<b>Total comprehensive income</b>		-	-	-	13,254	13,254
Transfer from retained earnings to reserves	21	-	-	57,370	(57,370)	-
Transfer from capital reserves to paid-in capital	20, 21	2,930	-	(2,930)	-	-
Paid-in capital contribution from an equity holder	20, 21	250	-	4,750	-	5,000
Conversion into a joint stock company	20, 21	(5,000)	20,000	(14,171)	(829)	-
Share capital contribution from an equity holder	20, 21	-	3,750	11,250	-	15,000
Appropriation to statutory reserves	21	-	-	1,325	(1,325)	-
<b>Transactions with owners of the company</b>		<u>(1,820)</u>	<u>23,750</u>	<u>57,594</u>	<u>(59,524)</u>	<u>20,000</u>
<b>Balance at 31 December 2023</b>		<u>-</u>	<u>23,750</u>	<u>58,504</u>	<u>20,331</u>	<u>102,585</u>
<b>Balance at 1 January 2024</b>		-	23,750	58,504	20,331	102,585
Profit for the period		-	-	-	7,343	7,343
<b>Total comprehensive income</b>		-	-	-	7,343	7,343
<b>Balance at 30 June 2024</b>		<u>-</u>	<u>23,750</u>	<u>58,504</u>	<u>27,674</u>	<u>109,928</u>
<b>Unaudited:</b>						
<b>Balance at 1 January 2023</b>		1,820	-	910	66,601	69,331
Profit for the period		-	-	-	4,284	4,284
<b>Total comprehensive income</b>		-	-	-	4,284	4,284
<b>Balance at 30 June 2023</b>		<u>1,820</u>	<u>-</u>	<u>910</u>	<u>70,885</u>	<u>73,615</u>

The notes on page 8 to 54 are integral parts of these financial statements.

**(d) Statements of Cash Flows**

		Year ended 31 December			Six months ended 30 June	
	Note	2021	2022	2023	2023	2024
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
<b>Cash flows from operating activities</b>						
Cash generated from operations	24	13,050	4,891	25,421	1,052	6,601
Income tax paid		(5,012)	(6,836)	(3,807)	(1,168)	(5,010)
Interest received		100	97	328	33	49
<b>Net cash generated from/(used in) operating activities</b>		<b>8,138</b>	<b>(1,848)</b>	<b>21,942</b>	<b>(83)</b>	<b>1,640</b>
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment		(1,192)	(1,511)	(4,536)	(1,095)	(11,692)
Purchase of intangible assets		(35)	-	(56)	-	(237)
Decrease in amounts due from immediate holding company		-	436	-	-	-
Increase in amounts due from a related party	27(b)	-	-	(7,850)	(7,850)	-
Decrease in amounts due from a related party	27(b)	-	-	7,850	-	-
Receipt of rental fee in relation to sublease		345	80	-	-	-
<b>Net cash used in investing activities</b>		<b>(882)</b>	<b>(995)</b>	<b>(4,592)</b>	<b>(8,945)</b>	<b>(11,929)</b>
<b>Cash flows from financing activities</b>						
Distribution of dividends	12	(1,900)	(1,900)	-	-	-
Proceeds of capital contribution from equity holders	20(a), 21(c)	-	1,331	20,000	-	-
Principal elements and interest elements of lease payments	14	(532)	(213)	(386)	(386)	(192)
Payments of listing expenses to be deducted against equity		-	-	(10,040)	-	(6,205)
<b>Net cash (used in)/generated from financing activities</b>		<b>(2,432)</b>	<b>(782)</b>	<b>9,574</b>	<b>(386)</b>	<b>(6,397)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4,824</b>	<b>(3,625)</b>	<b>26,924</b>	<b>(9,414)</b>	<b>(16,686)</b>
Cash and cash equivalents at beginning of the year/period		31,022	35,846	32,221	32,221	59,145
<b>Cash and cash equivalents at end of the year/period</b>		<b>35,846</b>	<b>32,221</b>	<b>59,145</b>	<b>22,807</b>	<b>42,459</b>

The notes on page 8 to 54 are integral parts of these financial statements.



## II. NOTES TO THE FINANCIAL STATEMENTS

### 1. General information

Guangdong Syntrust GK Testing and Certification Tech Service Center Co., Ltd. (the “Company”) is a state-owned enterprise incorporated in Guangdong Province of the People’s Republic of China (the “PRC”). The Company was established as a joint-stock cooperative enterprise on 28 March 2000. The Company was converted into a limited liability company in July 2023 and was further converted into a joint stock company with limited liability in October 2023. The address of the Company’s registered office is Floor 1, Building A, Xinyi Construction Bureau Courtyard, Maoming City, Guangdong Province.

The Company is principally engaged in providing testing services and inspection services for construction projects, construction materials and food products in the People’s Republic of China (the “PRC”) (the “Listing Business”). The Company’s immediate holding company is Xinyi City Construction Engineering Quality and Safety Affairs Center (“Xinyi City CEQS Center”), a public institution of the Xinyi City People’s Government under the Xinyi City Bureau of Housing and Urban-Rural Development.

### 2. Basis of preparation

#### (i) First time adoption of HKFRS

These financial statements are the first financial statements prepared by the Company in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA (“HKFRS”), with transition date being 1 January 2021.

For the purpose of reporting to one of its shareholders incorporated in PRC, the Company has prepared financial information in accordance with the Accounting Standards for Smaller Business Enterprises for the years end 31 December 2020, 2021 and 2022, while the company has prepared financial information in accordance with the Accounting Standard for Business Enterprises - Basic Standard, the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as the “Accounting Standard for Business Enterprises”) for the year ended 31 December 2023. Both Accounting Standards for Smaller Business Enterprises and Accounting Standard for Business Enterprises are applicable in the PRC (the “PRC GAAP”).

Below table sets the reconciliation of the Company’s equity reported under PRC GAAP to its equity and total comprehensive income reported under HKFRS:

	As at 1 January 2021 RMB’000	As at 31 December 2023 RMB’000
Total Equity reported under PRC GAAP		
Reconciliation:	26,397	102,585
GAAP difference	26,085	-
-Timing differences in recognition of revenue, other income, cost of sales and expenses	39,486	-
-Effect of adoption of HKFRS 9 in respect of loss allowance provision for receivables	(7,586)	-
-Effect of adoption of HKFRS 16	1,749	-
-Tax effect of the above adjustments, where applicable	(7,564)	-
Others difference	(1,331)	-
-Others	(1,331)	-
Total Equity reported under HKFRS	51,151	102,585

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. Basis of preparation (Continued)

#### (i) *First time adoption of HKFRS (Continued)*

There is no material difference between the Company's total comprehensive income reported under PRC GAAP and those reported under HKFRS in the year ended 31 December 2023.

There is no other reconciliation item between the Company's equity and its total comprehensive income reported under PRC GAAP and those reported under HKFRS in the Relevant Periods.

There is no material difference between the Company's statements of cash flows reported under PRC GAAP and those reported under HKFRS in the Relevant Periods.

#### (ii) *Compliance with HKFRS*

The financial statements of the Company has been prepared in accordance with principal accounting policies as set out below which are in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the HKICPA. The principal accounting policies have been consistently applied to all the years presented, unless otherwise stated.

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

#### (iii) *Accounting policies*

The material accounting policies applied in the preparation of the financial information has been consistently applied to all the years presented, unless otherwise stated.

Other than those material accounting policies information as disclosed in the notes to the relevant financial line items or transactions in this financial statements, a summary of the other accounting policies information has been set out in Note 30 to this financial statements.

#### **New and amended standards adopted by the Company**

In preparation of the financial statements, all of the new standards, amendments to standards and interpretations that are effective during the Relevant Periods have been adopted by the Company consistently throughout the Relevant Periods.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2. Basis of preparation (Continued)

#### (iii) Accounting policies (Continued)

#### **New and amended standards adopted by the Company (Continued)**

The following new standards, amendments to accounting standards and interpretations have been issued but are not effective for the Relevant Periods and have not been early adopted by the Company:

		<b>Effective for accounting periods beginning on or after</b>
HKAS 21 (Amendments)	Lack of Exchangeability	1 January 2025
HKFRS 9 and HKFRS 7 (Amendments)	Amendments to the Classification and Measurement of Financial Instruments	1 January 2026
HKFRS 18	Presentation and Disclosure in Financial Statements	1 January 2027
HKFRS 19	Subsidiaries without Public Accountability Disclosures	1 January 2027
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint venture	To be determined

The Company has already commenced an assessment of the impact of these new and amended standards and has concluded on a preliminary basis that adoption of these new and amended standards is not expected to have significant impact on the financial performance and position of the Company when they become effective.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 Financial risk management

#### 3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Company has no significant interest-bearing liabilities during the Relevant Periods. The fair value interest rate risk that arises from financial assets and liabilities carried at fixed rates is not significant for the Company.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by the financial department under policies approved by the senior management of the Company.

##### (a) Foreign exchange risk

The Company's normal operating activities are principally conducted in RMB. The Company collects all of its revenue in RMB and most of its expenditures are also denominated in RMB. The foreign exchange risk mainly arises from the exposure of RMB against Hong Kong dollars ("HKD") and United State dollars ("USD") for certain other payables for listing expenses. Amount of approximately RMB3,971,000 (2023: RMB4,371,000, 2022: nil and 2021: nil) were denominated in HKD and no other payables for listing expenses was denominated in USD as at 30 June 2024 (2023: RMB196,000, 2022: nil and 2021: nil).

The Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

As at 30 June 2024, if RMB had strengthened/weakened by 5 percent against HKD and USD with all other variables held constant, post-tax profit for the year would have been approximately RMB149,000 (2023: RMB171,000, 2022: nil and 2021: nil) higher/lower, mainly as a result of the net foreign exchange gains on translation of monetary liabilities denominated in HKD and USD.

##### (b) Credit risk

The Company is exposed to credit risk in relation to its trade receivables, other receivables and cash and cash equivalents. The carrying amounts of trade receivables, other receivables and cash and cash equivalents represent the Company's maximum exposure to credit risk in relation to financial assets. The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

To manage this risk, cash at banks are placed with reputable financial institutions in the PRC. For trade receivables and other receivables, the management of the Company has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The credit quality of customers is assessed after taking into account the customers' financial position and past experience with the customers.

##### *Impairment of financial assets*

The Company has the following types of financial assets that are subject to the expected credit loss model:

- Trade receivables;
- Other receivables;
- Cash and cash equivalents.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 Financial risk management(Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (i) Trade receivables

The Company applies the simplified approach prescribed by HKFRS9 to measure expected credit losses which uses a lifetime expected losses allowance for all trade receivables.

Significant customers with different credit risk profiles and higher risk of default (mainly comprised material receivables with substantial delayed settlement and without collateral) are assessed on an individual basis. The individual assessment focused on the customer payment history and current and future ability for payment taking into account the information specific to the customer. Individually impaired trade receivables represented customers with higher credit risk profile.

To measure the expected credit losses, except for those individual receivables which loss allowance has been provided for, trade receivables have been grouped based on shared credit risk characteristics and aging periods. Future cash flows for each group of receivables are estimated on the basis of historical default rates, adjusted to reflect the effects of existing market conditions as well as forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the expected loss rate for certain customers who were in bankruptcy, liquidation, insolvency or in other situations with higher default risk are assessed specifically by the directors as follows.

##### **As at 1 January 2021 (Unaudited)**

Expected credit loss rates	94.90%
Gross carrying amount (RMB'000)	3,255
Loss allowance provision (RMB'000)	<u>3,089</u>

##### **As at 31 December 2021**

Expected credit loss rates	90.48%
Gross carrying amount (RMB'000)	5,105
Loss allowance provision (RMB'000)	<u>4,619</u>

##### **As at 31 December 2022**

Expected credit loss rates	90.68%
Gross carrying amount (RMB'000)	5,215
Loss allowance provision (RMB'000)	<u>4,729</u>

##### **As at 31 December 2023**

Expected credit loss rates	99.64%
Gross carrying amount (RMB'000)	9,094
Loss allowance provision (RMB'000)	<u>9,061</u>

##### **As at 30 June 2024**

Expected credit loss rates	100.00%
Gross carrying amount (RMB'000)	8,810
Loss allowance provision (RMB'000)	<u>8,810</u>

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 Financial risk management(Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (i) Trade receivables (Continued)

As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the loss allowance provision for the trade receivables (excluding trade receivables subject to specific expected loss rate) was determined as follows. The expected credit losses below also incorporated forward looking information.

	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Over 4 years	Total
<b>As at 1 January 2021 (Unaudited)</b>						
Expected credit loss rates	11.38%	19.18%	30.88%	58.24%	100.00%	14.39%
Gross carrying amount (RMB'000)	18,284	8,503	421	170	1	27,379
Loss allowance provision (RMB'000)	2,080	1,631	130	99	1	3,941
<b>As at 31 December 2021</b>						
Expected credit loss rates	7.76%	11.68%	21.07%	32.21%	100.00%	11.30%
Gross carrying amount (RMB'000)	21,233	11,900	5,813	357	71	39,374
Loss allowance provision (RMB'000)	1,648	1,390	1,225	115	71	4,449
<b>As at 31 December 2022</b>						
Expected credit loss rates	7.58%	13.09%	17.66%	31.78%	100.00%	14.36%
Gross carrying amount (RMB'000)	14,071	11,563	10,304	3,697	133	39,768
Loss allowance provision (RMB'000)	1,067	1,514	1,820	1,175	133	5,709
<b>As at 31 December 2023</b>						
Expected credit loss rates	7.12%	13.25%	19.58%	35.34%	100.00%	8.67%
Gross carrying amount (RMB'000)	27,307	3,102	1,083	566	13	32,071
Loss allowance provision (RMB'000)	1,943	411	212	200	13	2,779
<b>As at 30 June 2024</b>						
Expected credit loss rates	7.22%	13.29%	21.60%	38.53%	100.00%	8.76%
Gross carrying amount (RMB'000)	31,019	3,394	1,023	571	25	36,032
Loss allowance provision (RMB'000)	2,241	451	221	220	25	3,158



## **II. NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **3 Financial risk management(Continued)**

#### **3.1 Financial risk factors (Continued)**

- (b) Credit risk (Continued)
- (ii) Other financial assets at amortised cost

Credit risk also arises from cash and cash equivalents and other receivables. The carrying amount of each class of these financial assets represents the Company's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage risk arising from cash and cash equivalents, the Company mainly transacts with state-owned or reputable financial institutions in the PRC. There has been no recent history of default in relation to these financial institutions. These instruments are considered to have low credit risk because they have a low risk of default and the counterparty has a strong capacity to meet its contractual cash flow obligations in the near term. Therefore, as at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the expected credit loss of cash and cash equivalents is assessed to be immaterial.

For impairment on other receivables, it is measured as either 12-months expected credit losses or lifetime expected credit loss, depending on whether there has been significant increase in credit risk since initial recognition (stage 1). Once there is a significant increase in credit risk, lifetime expected credit losses shall be assessed (stage 2). Once it is credit impaired (e.g. default), lifetime expected credit losses shall still be assessed (stage 3).

#### **Significant increase in credit risk**

The Company considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the end of reporting period with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding looking adjustment factors. Especially the following indicators are incorporated:

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 Financial risk management(Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

##### (ii) Other financial assets at amortised cost (Continued)

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Company and changes in the operating results of the borrower.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

The expected credit loss for other receivables from a third party as at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024 was classified into stage 3 and measured on a lifetime basis as the receivable had been long past due.

	As at 1	As at 31 December			As at 30
	January	2021	2022	2023	June
	2021	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
<b>Other receivables from a third party</b>					
Gross carrying amount	934	633	559	559	559
Expected loss rate	54.39%	84.20%	100%	100%	100%
Loss allowance provision	<u>508</u>	<u>533</u>	<u>559</u>	<u>559</u>	<u>559</u>

All the Company's other receivables, excluding the above amounts due from a third party subject to specific expected lose rate, as at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024 were classified into stage 1 and their expected credit losses were measured on a 12-month basis as there has been no significant increase in credit risk since initial recognition.

II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk (Continued)

(ii) Other financial assets at amortised cost (Continued)

	As at 1	As at 31 December			As at 30
	January	2021	2022	2023	June
	2021	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
<b>Other receivables (excluding receivables due from a third party)</b>					
Gross carrying amount	5,641	5,309	4,829	548	404
Expected loss rate	0.85%	2.02%	1.88%	1.09%	1.24%
Loss allowance provision	<u>48</u>	<u>107</u>	<u>91</u>	<u>6</u>	<u>5</u>

As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the loss allowance provision for trade and other receivables reconciles to the opening loss allowance for that provision as follows:

	Trade receivables	Other receivables	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2021 (Unaudited)	7,031	556	7,587
Net impairment losses recognised on financial assets	<u>2,037</u>	<u>84</u>	<u>2,121</u>
As at 31 December 2021	<u>9,068</u>	<u>640</u>	<u>9,708</u>
As at 1 January 2022	9,068	640	9,708
Net impairment losses recognised on financial assets	<u>1,370</u>	<u>10</u>	<u>1,380</u>
As at 31 December 2022	<u>10,438</u>	<u>650</u>	<u>11,088</u>
As at 1 January 2023	10,438	650	11,088
Net impairment losses recognised on financial assets/(Reversal)	<u>1,402</u>	<u>(85)</u>	<u>1,317</u>
As at 31 December 2023	<u>11,840</u>	<u>565</u>	<u>12,405</u>
As at 1 January 2024	11,840	565	12,405
Net impairment losses recognised on financial assets/(Reversal)	<u>128</u>	<u>(1)</u>	<u>127</u>
As at 30 June 2024	<u>11,968</u>	<u>564</u>	<u>12,532</u>

As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the gross carrying amount of trade and other receivables was RMB37,209,000, RMB50,421,000, RMB50,371,000, RMB42,272,000 and RMB45,805,000, respectively, which represented the maximum exposure to credit loss as at the respective balance sheet dates.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (c) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations when they fall due, resulting from amount and maturity mismatches of assets and liabilities.

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding. Due to the nature of the underlying businesses, the Company's management responsible for treasury function aims to maintain flexibility in funding by keeping sufficient cash available.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities	Within 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Between 5 and 10 years RMB'000	Over 10 years RMB'000	Total RMB'000
<b>As at 1 January 2021 (Unaudited)</b>						
Trade payables	608	-	-	-	-	608
Other payables and accruals (excluding non-financial liabilities)	33	-	-	-	-	33
Lease liabilities (including interests to be paid)	781	460	1,404	2,808	972	6,425
	<u>1,422</u>	<u>460</u>	<u>1,404</u>	<u>2,808</u>	<u>972</u>	<u>7,066</u>
<b>As at 31 December 2021</b>						
Trade payables	105	-	-	-	-	105
Other payables and accruals (excluding non-financial liabilities)	301	-	-	-	-	301
Lease liabilities (including interests to be paid)	629	558	2,047	3,172	325	6,731
	<u>1,035</u>	<u>558</u>	<u>2,047</u>	<u>3,172</u>	<u>325</u>	<u>7,137</u>
<b>As at 31 December 2022</b>						
Trade payables	738	-	-	-	-	738
Other payables and accruals (excluding non-financial liabilities)	1,345	-	-	-	-	1,345
Lease liabilities (including interests to be paid)	973	900	2,826	3,097	-	7,796
	<u>3,056</u>	<u>900</u>	<u>2,826</u>	<u>3,097</u>	<u>-</u>	<u>9,879</u>
<b>As at 31 December 2023</b>						
Trade payables	612	-	-	-	-	612
Other payables and accruals (excluding non-financial liabilities)	6,317	-	-	-	-	6,317
Lease liabilities (including interests to be paid)	588	411	1,164	65	-	2,228
	<u>7,517</u>	<u>411</u>	<u>1,164</u>	<u>65</u>	<u>-</u>	<u>9,157</u>

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (c) Liquidity risk(Continued)

Contractual maturities of financial liabilities	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Over 10 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>As at 30 June 2024</b>						
Trade payables	492	-	-	-	-	492
Other payables and accruals (excluding non-financial liabilities)	7,074	-	-	-	-	7,074
Lease liabilities (including interests to be paid)	3,324	3,145	9,222	17,341	27,031	60,063
	<u>10,890</u>	<u>3,145</u>	<u>9,222</u>	<u>17,341</u>	<u>27,031</u>	<u>67,629</u>

#### 3.2 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

The Company monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes trade payables, other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Company. The gearing ratio is not applicable when the amount of cash and cash equivalents is higher than gross debt. The net surplus at the end of the Relevant Periods is calculated as follows:

	As at 1 January	As at 31 December		As at 30 June
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000
Trade payables	608	105	738	492
Other payables and accruals	4,319	4,853	4,786	9,083
Less: Cash and cash equivalents	<u>(31,022)</u>	<u>(35,846)</u>	<u>(32,221)</u>	<u>(59,145)</u>
Net surplus	(26,095)	(30,888)	(26,697)	(49,563)
Equity attributable to owners of the Company	<u>51,151</u>	<u>66,988</u>	<u>69,331</u>	<u>102,585</u>
				<u>109,928</u>

## **II. NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **3 Financial risk management (Continued)**

#### **3.3 Fair value estimation**

The Company analyses its financial instruments' fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Company's financial instruments including trade receivables, cash and cash equivalents, other receivables, trade payables and other payables are not measured at fair value and are measured at amortised cost in the balance sheet.

For these instruments, the fair values are not materially different from their carrying amounts since either the interest receivable is close to current market rates or the instruments are short-term in nature.

#### **4 Critical accounting estimates and judgements**

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Company's accounting policies. The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

##### **(a) Provision for expected losses of financial assets**

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the tables in note 3.1(b).

#### **5 Segment information**

The Company's business activities, for which discrete financial statements are available, are regularly reviewed and evaluated by the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the general manager of the Company. As a result of this evaluation, the CODM considers that the Company's operations are operated and managed as a single segment. Accordingly, no segment information is presented.

During the Relevant Periods, the operating of the Company is domiciled in the PRC and the Company's revenue was attributable to the market in the PRC.

As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the Company's non-current assets were all located in the PRC.



## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 6 Revenue

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Revenue from contracts with customers:					
- Testing services	38,470	15,402	36,026	15,209	21,538
- Inspection services	1,311	4,564	5,474	1,120	1,292
	<u>39,781</u>	<u>19,966</u>	<u>41,500</u>	<u>16,329</u>	<u>22,830</u>
Timing of revenue recognition					
- At point in time	38,470	15,402	36,026	15,209	21,538
- Over time	1,311	4,564	5,474	1,120	1,292
	<u>39,781</u>	<u>19,966</u>	<u>41,500</u>	<u>16,329</u>	<u>22,830</u>

Revenue from transactions with external customers amounting to approximately 10% or more of the Company's revenue are as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Customer A	5,078	N/A*	N/A*	N/A*	N/A*
Customer B	N/A*	3,671	N/A*	N/A*	N/A*
Customer C	N/A*	N/A*	4,470	N/A*	N/A*
Customer D	N/A*	N/A*	N/A*	1,882	N/A*
Customer E	N/A*	N/A*	N/A*	N/A*	2,882
Customer F	N/A*	N/A*	N/A*	N/A*	2,799

Note\*: The customer contributed less than 10% of total revenue for the corresponding year.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 6 Revenue (Continued)

#### (a) Accounting policies of revenue recognition

The Company generates revenue primarily from the provision of testing services (Note 6(a)(i)) and inspection services (Note 6(a)(ii)). The Company enters into contracts that may involve multiple performance obligations among which the Company allocates the transaction price on the basis of the standalone selling prices of each performance obligation. Standalone selling prices are generally determined based on the prices charged to customers. If it is not directly observable, the standalone selling price is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information, the data utilised, and considering the Company's pricing policies and practices in making pricing decisions.

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 Company expects to be entitled in exchange for those goods or services. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if the Company's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Company performs; or
- does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods and services.

A contract asset is the Company's right to consideration in exchange for goods and services that the Company has transferred to a customer. A trade receivable is recorded when the Company has an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration or the Company has a right to an amount of consideration that is unconditional, before the Company transfers a good or service to the customer, the Company presents the contract liability when the payment is made or a receivable is recorded, whichever is earlier. A contract liability is the Company's obligation to transfer goods or services to a customer for which the Company has received consideration, or an amount of consideration is due, from the customer.

#### (i) Testing services

The Company performs testing services for foundation, building structure, construction materials, infrastructure and public roads and food products. The performance obligation is satisfied upon completion of the promised services.

#### (ii) Inspection services

The Company also provides inspection services. Such services are satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs. Revenue is recognised for these services based on the stage of completion of the contract using output method.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 6 Revenue (Continued)

#### (b) Contract liabilities

The Company has recognised the following revenue-related contract liabilities:

	As at 1 January	As at 31 December			As at 30 June
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Testing services	1,158	729	1,060	1,394	1,232
Inspection services	-	21	-	-	-
	1,158	750	1,060	1,394	1,232

Contract liabilities represent cash received from customers in advance for which the goods and services are yet to be delivered. A major portion of contract liabilities at the beginning of the year will be recognised into revenue next year.

#### (c) Unsatisfied performance obligations

At 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the unsatisfied performance obligations are part of the contracts that has an original expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied performance obligations is not disclosed.

### 7 Expenses by nature

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Employee benefit expenses (Note (8))	9,574	10,607	13,114	5,862	6,755
Depreciation and amortisation	1,257	1,317	1,891	1,004	1,623
Testing materials and services purchased and used	1,538	959	1,126	629	831
Office expenses	905	978	1,502	646	827
Repair and maintenance costs	448	307	398	187	199
Listing expenses	-	-	1,779	-	887
Professional service fee	57	322	1,237	657	978
Taxes and surcharges	252	185	312	132	71
Others	300	180	630	80	252
	14,331	14,855	21,989	9,197	12,423

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 8 Employee benefit expenses

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Wages, salaries and bonuses	6,580	7,656	8,964	3,908	4,636
Pension costs — defined contribution plans, housing funds, medical insurances and other social insurances (Note (a))	2,563	2,364	3,621	1,672	1,778
Other employee benefits (Note (b))	431	587	529	282	341
	<u>9,574</u>	<u>10,607</u>	<u>13,114</u>	<u>5,862</u>	<u>6,755</u>

- (a) Pension costs — defined contribution plans, housing funds, medical insurances and other social insurances

Full time employees of the Company in the PRC are members of a state-managed retirement benefit schemes operated by the PRC Government. The Company is required to contribute a specified percentage of payroll costs, subject to certain ceiling, as determined by local government authority to the pension costs — defined contribution plans, housing funds, medical insurances and other social insurances to fund the benefits. The Company's liabilities in respect of benefits schemes are limited to the contribution payable in each year.

No forfeited contributions were utilised during the Relevant Periods to offset the Company's contribution to the abovementioned retirement benefit schemes.

- (b) Other employee benefits

Other employee benefits mainly include termination benefits, holiday benefits, insurance benefits, and others.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 8 Employee benefit expenses (Continued)

#### (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Company for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024 included nil, nil, 3, nil and 2 directors, respectively, whose emoluments are reflected in the analysis shown in note 28. The emoluments of the remaining individuals during the years/periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Wages, salaries and bonuses	630	765	276	341	385
Pension costs – defined contribution plans, housing funds, medical insurances and other social insurances	296	198	126	163	123
Other employee benefits	63	69	25	40	37
	<u>989</u>	<u>1,032</u>	<u>427</u>	<u>544</u>	<u>545</u>

The emoluments of these remaining individuals of the Company fell within the following bands:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023 (Unaudited)	2024
Emoluments bands (in Hong Kong Dollars (“HKD”)) Nil to HKD500,000	<u>5</u>	<u>5</u>	<u>2</u>	<u>5</u>	<u>3</u>

During the Relevant Periods, no emolument was paid by the Company to any of the five highest paid individuals above as an inducement to join, upon joining the Company, leave the Company or as compensation for loss of office.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 9 Finance costs - net

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
<b>Finance income</b>					
Interest income from bank deposits	100	97	70	33	49
<b>Finance costs</b>					
Interest expenses on lease liabilities	(254)	(281)	(219)	(142)	(488)
Finance costs - net	<u>(154)</u>	<u>(184)</u>	<u>(149)</u>	<u>(109)</u>	<u>(439)</u>

### 10 Income tax expense

The Company was incorporated in the PRC. Enterprise income tax ("EIT") was made on the estimated assessable profits of the Company and was calculated in accordance with the relevant regulations of the PRC after considering the available tax benefits from refunds and allowances. The general PRC EIT rate is 25% during the Relevant Periods.

The income tax expenses of the Company for the Relevant Periods are analysed as below.

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Current income tax expenses	6,693	1,200	5,058	1,694	2,737
Deferred income tax credit (Note 15)	(707)	(161)	(578)	(227)	(263)
	<u>5,986</u>	<u>1,039</u>	<u>4,480</u>	<u>1,467</u>	<u>2,474</u>

The income tax expense for the Relevant Periods can be reconciled to the profit before income tax as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Profit before income tax	23,723	3,951	17,734	5,751	9,817
Tax calculated at tax rates applicable to profit in the respective tax jurisdictions	5,931	988	4,434	1,438	2,454
-Expenses not deductible for tax purposes	55	51	46	29	20
Income tax expenses	<u>5,986</u>	<u>1,039</u>	<u>4,480</u>	<u>1,467</u>	<u>2,474</u>



## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 11 Earnings per share

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023 (Unaudited)	2024
Profit attributable to owners of the Company (RMB'000)	17,737	2,912	13,254	4,284	7,343
Weighted average number of ordinary shares outstanding (Note (a) and (c))	<u>20,000,000</u>	<u>20,000,000</u>	<u>20,575,342</u>	<u>20,000,000</u>	<u>23,750,000</u>
Basic and diluted earnings per share (in RMB)	<u>0.89</u>	<u>0.15</u>	<u>0.64</u>	<u>0.21</u>	<u>0.31</u>

- (a) In October 2023, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC. By reference to the Company's net asset value as at 31 July 2023, the Company issued 20,000,000 ordinary shares at a par value of RMB1 each. For the purpose of calculation of earnings per shares issued during the Relevant Periods, ordinary shares issued pursuant to the conversion were treated as if they had been issued at the beginning of year ended 31 December 2021.
- (b) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had no potential ordinary shares outstanding during the Relevant Periods. Therefore, diluted earnings per share was the same as the basic earnings per share.
- (c) In November 2023, the Company increased its share capital from RMB20,000,000 to RMB23,750,000 by issuing 3,750,000 new shares to Xinyi Xinhui for a cash consideration of RMB15,000,000. Upon the completion of such capital injection, the Company was owned as to 80% by Xinyi City CEQS Center and 20% by Xinyi Xinhui, respectively.

### 12 Dividends

Dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholder or directors, where appropriate.

In May 2021 and September 2021, cash dividends of RMB1,900,000 in total were declared and paid. In March 2022, a cash dividend of RMB1,900,000 was declared and paid.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13 Property, plant and equipment

	Machinery equipment RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Vehicles RMB'000	Total RMB'000
<b>As at 1 January 2021(Unaudited)</b>					
Cost	7,697	626	477	831	9,631
Accumulated depreciation	(4,860)	(252)	(276)	(761)	(6,149)
Net book amount	<u>2,837</u>	<u>374</u>	<u>201</u>	<u>70</u>	<u>3,482</u>
<b>Year ended 31 December 2021</b>					
Opening net book amount	2,837	374	201	70	3,482
Additions	956	218	249	-	1,423
Depreciation charge	(684)	(141)	(105)	(26)	(956)
Closing net book amount	<u>3,109</u>	<u>451</u>	<u>345</u>	<u>44</u>	<u>3,949</u>
<b>As at 31 December 2021</b>					
Cost	8,653	840	727	830	11,050
Accumulated depreciation	(5,544)	(389)	(382)	(786)	(7,101)
Net book amount	<u>3,109</u>	<u>451</u>	<u>345</u>	<u>44</u>	<u>3,949</u>
<b>Year ended 31 December 2022</b>					
Opening net book amount	3,109	451	345	44	3,949
Additions	1,249	316	139	296	2,000
Disposal	(13)	-	-	-	(13)
Depreciation charge	(750)	(189)	(151)	(34)	(1,124)
Closing net book amount	<u>3,595</u>	<u>578</u>	<u>333</u>	<u>306</u>	<u>4,812</u>
<b>As at 31 December 2022</b>					
Cost	9,826	1,156	850	1,126	12,958
Accumulated depreciation	(6,231)	(578)	(517)	(820)	(8,146)
Net book amount	<u>3,595</u>	<u>578</u>	<u>333</u>	<u>306</u>	<u>4,812</u>
<b>Year ended 31 December 2023</b>					
Opening net book amount	3,595	578	333	306	4,812
Additions	398	-	130	263	791
Disposal	(1)	(37)	-	-	(38)
Depreciation charge	(953)	(161)	(161)	(65)	(1,340)
Closing net book amount	<u>3,039</u>	<u>380</u>	<u>302</u>	<u>504</u>	<u>4,225</u>
<b>As at 31 December 2023</b>					
Cost	10,179	534	965	1,389	13,067
Accumulated depreciation	(7,140)	(154)	(663)	(885)	(8,842)
Net book amount	<u>3,039</u>	<u>380</u>	<u>302</u>	<u>504</u>	<u>4,225</u>

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	Machinery equipment RMB'000	Leasehold improvements RMB'000	Office equipment RMB'000	Vehicles RMB'000	Total RMB'000
<b>Six months ended 30 June 2024</b>					
Opening net book amount	3,039	380	302	504	4,225
Additions	12,121	299	31	297	12,748
Depreciation charge	(874)	(55)	(81)	(57)	(1,067)
Closing net book amount	<u>14,286</u>	<u>624</u>	<u>252</u>	<u>744</u>	<u>15,906</u>
<b>As at 30 June 2024</b>					
Cost	22,300	833	996	1,686	25,815
Accumulated depreciation	(8,014)	(209)	(744)	(942)	(9,909)
Net book amount	<u>14,286</u>	<u>624</u>	<u>252</u>	<u>744</u>	<u>15,906</u>
<b>Unaudited:</b>					
<b>Six months ended 30 June 2023</b>					
Opening net book amount	3,595	578	333	306	4,812
Additions	349	-	26	-	375
Depreciation charge	(481)	(101)	(87)	(28)	(697)
Closing net book amount	<u>3,463</u>	<u>477</u>	<u>272</u>	<u>278</u>	<u>4,490</u>
<b>As at 30 June 2023</b>					
Cost	10,175	1,156	876	1,126	13,333
Accumulated depreciation	(6,712)	(679)	(604)	(848)	(8,843)
Net book amount	<u>3,463</u>	<u>477</u>	<u>272</u>	<u>278</u>	<u>4,490</u>

Depreciation has been charged to the following categories in the statements of comprehensive income and balance sheet as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Cost of sales	820	725	877	464	743
Administrative expenses	51	127	196	103	155
Research and development expenses	-	-	1	-	1
Contract fulfilment cost	85	272	266	130	168
	<u>956</u>	<u>1,124</u>	<u>1,340</u>	<u>697</u>	<u>1,067</u>

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives or, in case of leasehold improvements, the lease term if shorter, as follows:

Machinery equipment	3-10 years
Vehicles	5 years
Office equipment	3-5 years
Leasehold improvements	Shorter of their useful life or the lease term

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

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Property, plant and equipment are stated at historical cost less depreciation and impairment losses (if any). Historical cost includes expenditures that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in other gains/(losses) in the statements of comprehensive income.

### 14 Lease

#### (a) Amounts recognised in the balance sheets

##### Right-of-use assets

	<u>Land use rights</u> RMB'000	<u>Properties</u> RMB'000	<u>Total</u> RMB'000
<b>As at 1 January 2021</b>			
<b>(Unaudited)</b>	1,127	-	1,127
Additions	-	1,048	1,048
Depreciation charge	(97)	(125)	(222)
<b>As at 31 December 2021</b>	<u>1,030</u>	<u>923</u>	<u>1,953</u>
<b>As at 1 January 2022</b>	1,030	923	1,953
Additions	-	1,421	1,421
Depreciation charge	(97)	(303)	(400)
<b>As at 31 December 2022</b>	<u>933</u>	<u>2,041</u>	<u>2,974</u>
<b>As at 1 January 2023</b>	933	2,041	2,974
Depreciation charge	(64)	(353)	(417)
Termination of the lease (14(c))	(869)	-	(869)
<b>As at 31 December 2023</b>	<u>-</u>	<u>1,688</u>	<u>1,688</u>
<b>As at 1 January 2024</b>	-	1,688	1,688
Additions (Note 27(b) (i))	-	36,304	36,304
Depreciation charge	-	(630)	(630)
<b>As at 30 June 2024</b>	<u>-</u>	<u>37,362</u>	<u>37,362</u>
<b>Unaudited:</b>			
<b>As at 1 January 2023</b>	933	2,041	2,974
Depreciation charge	(48)	(177)	(225)
<b>As at 30 June 2023</b>	<u>885</u>	<u>1,864</u>	<u>2,749</u>

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 14 Lease(Continued)

(a) Amounts recognised in the balance sheets

#### Lease liabilities

	As at 1 January	As at 31 December			As at 30 June
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Lease liabilities					
Current	563	391	693	508	1,483
Non-current	4,451	4,995	5,786	1,494	37,119
	5,014	5,386	6,479	2,002	38,602

(b) Amounts recognised in the statements of comprehensive income and the balance sheets

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Depreciation charged to administrative expenses	-	153	203	101	324
Depreciation charged to cost of sales	222	247	214	124	269
Depreciation charged to research and development expenses	-	-	-	-	21
Depreciation changes in contract fulfilment cost	-	-	-	-	16
Total depreciation charge of right-of-use assets	222	400	417	225	630
Interest expenses (included in finance costs)	254	281	219	142	488

In August 2023, the Company early terminated certain lease of land use right and a loss amounting to RMB869,000 was recognised. For details, please refer to Note 14(c).

There are no short-term leases during the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024.

The total cash outflows for leases for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024 are as below:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Principal elements of lease payments (presented as financing cash flow)	484	127	290	337	150
Related interest paid (presented as financing cash flow)	48	86	96	49	42
	532	213	386	386	192

The weighted average incremental borrowing rate applied to the lease liabilities was 4.9%, respectively, for the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 14 Lease (Continued)

(c) The Company's leasing activities and how these are accounted for

In July 2016, the Company subleased certain land use right with a remaining lease term of 16.2 years to a third party. Such sublease is classified as finance lease as the sublease term of the land use right equals to the remaining term of the corresponding head leases. On the commencement date of the sublease of the land use right, the Company derecognised the right-of-use asset of RMB3,123,000 and recognised a lease payments receivable of RMB4,994,000 accordingly, being the present value of the lease payments as agreed. As at 1 January 2021 and 31 December 2021 and 2022, the lease payments receivable of the subleased land use right amounted to RMB4,578,000, RMB4,388,000 and RMB4,189,000, respectively (Note 18). In August 2023, the Company entered a termination agreement for the aforementioned land use right with the lessor in the head lease and the lessee in the sublease. Upon the termination, the Company derecognised right-to-use assets of RMB869,000, lease liabilities of RMB3,914,000 and lease payments receivable of RMB3,914,000. A loss amounting to RMB869,000 was recognised as other losses due to such early termination of the lease.

In July 2017, the Company subleased a property with a remaining lease term of 4.7 years to a third party. Such sublease is classified as finance lease as the sublease term of the property equals to the remaining term of the corresponding head leases. On the commencement date of the sublease of the property, the Company derecognised the right-of-use asset of RMB1,430,000 and recognised a lease payments receivable of RMB2,073,000 accordingly, being the present value of the lease payments as agreed. As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024 the lease payments receivable of the subleased property amounted to RMB1,032,000, RMB633,000, RMB559,000 and RMB559,000 and RMB559,000, respectively (Note 18).

### 15 Deferred income tax

(a) The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 1 January	As at 31 December			As at 30 June
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Deferred tax assets	3,278	4,044	4,392	3,602	12,783
Set-off of deferred tax liabilities	(1,684)	(1,743)	(1,930)	(562)	(9,480)
	<u>1,594</u>	<u>2,301</u>	<u>2,462</u>	<u>3,040</u>	<u>3,303</u>
Deferred tax liabilities	(1,684)	(1,743)	(1,930)	(562)	(9,480)
Set-off of deferred tax assets	1,684	1,743	1,930	562	9,480
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The net movements on the deferred tax assets - net are as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
At the beginning of the year/period	1,594	2,301	2,462	2,462	3,040
Tax credit to profit or loss (Note 10)	707	161	578	227	263
At the end of the year/period	<u>2,301</u>	<u>2,462</u>	<u>3,040</u>	<u>2,689</u>	<u>3,303</u>



## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 15 Deferred income tax (Continued)

- (b) The movements in deferred tax assets and liabilities during the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Deferred tax assets			Deferred tax liabilities		
	Provision for credit loss of trade receivables and other receivables RMB'000	Payroll accrual RMB'000	Lease liabilities RMB'000	Right-of-use assets RMB'000	Lease payments receivable RMB'000	Total RMB'000
As at 1 January 2021 (Unaudited)	1,897	128	1,254	(282)	(1,403)	1,594
Tax credited/ (charged) to profit or loss	530	143	92	(206)	148	707
As at 31 December 2021	2,427	271	1,346	(488)	(1,255)	2,301
As at 1 January 2022	2,427	271	1,346	(488)	(1,255)	2,301
Tax credited/ (charged) to profit or loss	345	(271)	274	(255)	68	161
As at 31 December 2022	2,772	-	1,620	(743)	(1,187)	2,462
As at 1 January 2023	2,772	-	1,620	(743)	(1,187)	2,462
Tax credited/ (charged) to profit or loss	329	-	(1,119)	321	1,047	578
As at 31 December 2023	3,101	-	501	(422)	(140)	3,040
As at 1 January 2024	3,101	-	501	(422)	(140)	3,040
Tax credited/ (charged) to profit or loss	32	-	9,149	(8,918)	-	263
As at 30 June 2024	3,133	-	9,650	(9,340)	(140)	3,303
<b>Unaudited</b>						
As at 1 January 2023	2,772	-	1,620	(743)	(1,187)	2,462
Tax credited/ (charged) to profit or loss	397	-	(160)	56	(66)	227
As at 30 June 2023	3,169	-	1,460	(687)	(1,253)	2,689

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 16 Contract fulfilment costs

	<u>As at 1 January</u>	<u>As at 31 December</u>			<u>As at 30 June</u>
	2021	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Contract fulfilment costs	<u>1,286</u>	<u>820</u>	<u>2,053</u>	<u>1,390</u>	<u>2,440</u>

As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the balance of contract fulfilment costs represents the asset recognised in relation to costs to fulfil contracts for testing services.

The costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) The costs are expected to be recovered.

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

An impairment loss will be recognised in profit or loss to the extent that the carrying amount of contract fulfilment costs exceeds:

- (a) the remaining amount of consideration expected to receive in exchange for the goods or services to which the contract cost relates; less
- (b) The cost that relate directly to providing those goods or services and that have not been recognised as expenses.

II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 Financial instruments by category

	<u>As at 1 January</u>	<u>As at 31 December</u>			<u>As at 30 June</u>
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
<b>Financial assets</b>					
<b>Financial assets at amortised cost:</b>					
Trade receivables (Note 18)	23,604	35,411	34,545	29,325	32,874
Other receivables (excluding non-financial assets) (Note 18)	6,019	5,302	4,738	542	399
Cash and cash equivalents (Note 19)	31,022	35,846	32,221	59,145	42,459
	<u>60,645</u>	<u>76,559</u>	<u>71,504</u>	<u>89,012</u>	<u>75,732</u>
<b>Financial liabilities</b>					
<b>Financial liabilities at amortised cost:</b>					
Trade payables (Note 22)	608	105	738	612	492
Other payables and accruals (excluding non-financial liabilities) (Note 23)	33	301	1,345	6,317	7,074
Lease liabilities (Note 14)	5,014	5,386	6,479	2,002	38,602
	<u>5,655</u>	<u>5,792</u>	<u>8,562</u>	<u>8,931</u>	<u>46,168</u>

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 Trade and other receivables and prepayments

	As at 1 January	As at 31 December			As at 30 June
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Trade receivables (Note (a))	30,634	44,479	44,983	41,165	44,842
Less: provision for credit loss of trade receivables (Note 3.1(b)(i))	(7,030)	(9,068)	(10,438)	(11,840)	(11,968)
	<u>23,604</u>	<u>35,411</u>	<u>34,545</u>	<u>29,325</u>	<u>32,874</u>
Other receivables (Note (b))					
Lease payments receivable (Note (c))	5,610	5,021	4,748	559	559
Amounts due from related parties (Note (27(c)))	436	436	-	-	-
Others	529	485	640	548	404
	<u>6,575</u>	<u>5,942</u>	<u>5,388</u>	<u>1,107</u>	<u>963</u>
Less: allowance for credit loss of other receivables (Note 3.1(b)(ii))	(556)	(640)	(650)	(565)	(564)
	<u>6,019</u>	<u>5,302</u>	<u>4,738</u>	<u>542</u>	<u>399</u>
Prepayments					
Prepayments for property, plant and equipment	-	-	-	3,025	2,337
Prepayments for professional services fee	-	-	450	450	1,126
Prepayments for listing expenses	-	-	-	133	50
Others	25	73	86	207	202
	<u>25</u>	<u>73</u>	<u>536</u>	<u>3,815</u>	<u>3,715</u>
Deferred listing expenses	-	-	-	15,544	21,301
Less: Non-current portion of other receivables and prepayments	(4,486)	(4,187)	(3,976)	(3,025)	(2,985)
	<u>25,162</u>	<u>36,599</u>	<u>35,843</u>	<u>46,201</u>	<u>55,304</u>

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18 Trade and other receivables and prepayments (Continued)

- (a) As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the aging analysis of trade receivables based on the dates when the trade receivables are recognised is as follows:

	<u>As at 1 January</u>	<u>As at 31 December</u>			<u>As at 30 June</u>
	2021	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Within 1 year	19,335	22,544	14,146	27,950	31,302
1 year to 2 years	9,524	13,339	12,908	3,852	4,707
2 years to 3 years	626	6,985	11,743	3,327	2,997
3 years to 4 years	257	562	4,870	2,644	3,114
Over 4 years	892	1,049	1,316	3,392	2,722
	<u>30,634</u>	<u>44,479</u>	<u>44,983</u>	<u>41,165</u>	<u>44,842</u>

As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, trade receivables were all denominated in RMB and the fair value of trade receivables approximated their carrying amount.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Company applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. For details, please refer to Note 3.1(b).

- (b) The Company applies three-stage general approach to provide for expected credit losses prescribed by HKFRS 9. For details, please refer to Note 3.1(b).
- (c) As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the lease payments receivable of approximately RMB5,610,000, RMB5,021,000, RMB4,748,000 and RMB559,000 and RMB559,000 arose from certain property and land use right subleased by the Company (Note 14).

On 31 August 2023, the Company early terminated the sublease for the land use right. For details, please refer to Note 14(c).

### 19 Cash and cash equivalents

	<u>As at 1</u>	<u>As at 31 December</u>			<u>As at 30</u>
	January	2021	2022	2023	June
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Cash at banks and cash on hands denominated in RMB	31,022	35,846	32,221	59,145	42,459

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 20 Paid-in capital and share capital

	Note	Paid-in capital RMB'000
<b>As at 1 January 2021 and 31 December 2021</b>		
Capital contribution from an equity holder	(a)	489
		<u>1,331</u>
<b>As at 31 December 2022</b>		
		<u>1,820</u>
<b>As at 1 January 2023</b>		
Transfer from capital reserves	21(c)	1,820
Capital contribution from an equity holder	21(c)	2,930
Conversion into a joint stock company		250
		<u>(5,000)</u>
<b>As at 31 December 2023</b>		
		<u>-</u>

	Note	Number of shares	Share capital RMB'000
<b>As at 1 January 2023</b>			
Conversion into a joint stock company	21(b)	-	-
Capital contribution from a shareholder	21(c)	20,000	20,000
		<u>3,750</u>	<u>3,750</u>
<b>As at 31 December 2023 and 30 June 2024</b>			
		<u>23,750</u>	<u>23,750</u>

(a) In December 2022, a cash capital contribution of RMB1,331,000 was injected by Xinyi City CEQS Center.

### 21 Reserves

	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000 Note (a)	Total RMB'000
<b>As at 1 January 2021, 31 December 2021 and 2022</b>				
	-	-	910	<u>910</u>
<b>As at 1 January 2023</b>				
Transfer from retained earnings to reserves (Note (b))	-	-	910	910
Transfer to paid-in capital (Note (c))	-	58,280	(910)	57,370
Capital contribution from an equity holder (Note (c))	-	(2,930)	-	(2,930)
Conversion into a joint stock company (Note (b))	-	4,750	-	4,750
Capital contribution from an equity holder (Note (c))	46,072	(60,100)	(143)	(14,171)
Appropriation to statutory reserves	11,250	-	-	11,250
	-	-	<u>1,325</u>	<u>1,325</u>
<b>As at 31 December 2023 and 30 June 2024</b>				
	<u>57,322</u>	-	<u>1,182</u>	<u>58,504</u>

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 21 Reserves (Continued)

(a) In accordance with the PRC Company Law, the Company is required to appropriate 10% of its profits after tax, as determined in accordance with relevant accounting principles generally accepted in the PRC and other applicable regulations, to the statutory reserve until such reserve reaches 50% of its registered capital. The appropriation to the reserve must be made before any distribution of dividends to equity holders of the Company. The statutory reserve can be used to offset losses carried forward from previous years, if any, and part of the statutory reserve can be capitalised as the company capital provided that the amount of the remaining balance of reserve after the capitalisation shall not be less than 25% of its capital.

(b) In July 2023, the Company was converted into a limited liability company. According to the resolution of the shareholder, certain retained earnings and statutory reserves of the Company amounting to approximately RMB58,280,000 were transferred to capital reserves.

In October 2023, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC. By reference to the net assets of the Company as at 31 July 2023 amounting to approximately RMB66,072,000, the Company issued 20,000,000 ordinary shares at RMB1 each, the excess of net assets over nominal value of the ordinary shares was credited to the share premium.

(c) In July 2023, the Company increased its paid-in capital by RMB2,930,000 by way of capitalisation of capital reserves of the Company.

In July 2023, Xinyi Xinhui State-owned Capital Investment Group Co., Ltd. (“Xinyi Xinhui”) made an capital contribution, in terms of cash, of RMB5,000,000 to the Company, of which RMB250,000 was recognised as paid-in capital and RMB4,750,000 was recognised to capital reserve of the Company.

In November 2023, Xinyi Xinhui made an capital contribution, in terms of cash, of RMB15,000,000 to the Company, of which RMB3,750,000 was recognised as share capital and RMB11,250,000 was recognised to share premium of the Company.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 22 Trade payables

	As at 1 January	As at 31 December			As at 30 June
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Trade payables	608	105	738	612	492

The carrying amount of trade payables approximated as their fair value due to their short-term maturity in nature.

At 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the aging of trade payables based on the date of the goods and services received is as follows:

	As at 1 January	As at 31 December			As at 30 June
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Within 1 year	608	105	738	489	492
1 year to 2 years	-	-	-	123	-
	608	105	738	612	492

### 23 Other payables and accruals

	As at 1 January	As at 31 December			As at 30 June
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Salaries and welfare payables	2,213	1,617	1,616	998	608
Tax payables	2,073	2,935	1,825	1,655	1,401
Accruals for listing expenses	-	-	-	5,661	6,029
Payables for property, plant and equipment	33	231	720	-	368
Other payables	-	70	625	656	677
	4,319	4,853	4,786	8,970	9,083

(a) As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the carrying amounts of other payables and accruals approximated their fair values.

(b) Trade and other payables were denominated in the following currencies:

	As at 1 January	As at 31 December			As at 30 June
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
- RMB	4,319	4,853	4,786	4,403	5,112
- HKD	-	-	-	4,371	3,971
- USD	-	-	-	196	-
	4,319	4,853	4,786	8,970	9,083



## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 24 Cash flow information

#### (a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations is as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Profit before income tax	23,723	3,951	17,734	5,751	9,817
Adjustments for:					
- Depreciation and amortisation (Note 7)	1,257	1,317	1,891	1,004	1,623
- Changes of provision for credit loss of trade receivables (Note 3.1(b))	2,037	1,370	1,402	1,792	128
- Changes of provision for credit loss of other receivables (Note 3.1(b))	84	10	(85)	(203)	(1)
- Finance costs – net (Note 9)	154	184	149	109	439
- Other losses on the disposal of property, plant and equipment	-	13	38	-	-
- Other losses on the disposal of right-of-use assets	-	-	869	-	-
- Other income	-	-	(258)	(117)	-
Operating cashflow before changes in working capital and taxes paid	27,255	6,845	21,740	8,336	12,006
Change in operating assets and liabilities:					
- Contract fulfilment costs and inventory	405	(1,016)	538	354	(1,195)
- Trade receivables (Note 18)	(13,845)	(504)	3,818	(7,681)	(3,677)
- Prepayments and other receivables (Note 18)	(155)	(821)	(126)	791	(443)
- Trade payables (Note 22)	(503)	633	(126)	(294)	(120)
- Contract liabilities (Note 6)	(408)	310	334	39	(162)
- Other payables and accruals (Note 23)	301	(556)	(757)	(493)	192
Cash generated from operations	13,050	4,891	25,421	1,052	6,601

#### (b) Non-cash investing and financing activities

For the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, the lease payments for the subleased land use right of RMB396,000, RMB396,000 and RMB396,000 and RMB396,000 and nil, respectively, were directly transferred to the lessor in the head lease by the lessee of sublease. Such transaction was accounted for as non-cash transaction as neither investing cash flows in relation to the receipt of the lease payments receivable in the sublease were generated nor financing cash flows in relation to the payments of the lease liabilities in the head lease were incurred by the Company.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 24 Cash flow information (Continued)

#### (c) Reconciliation of liabilities arising from financing activities

	<b>Lease liabilities RMB'ooo</b>
Balance as at 1 January 2021 (Unaudited)	(5,012)
Additions	(1,048)
Financing cash flows	532
Interest expenses on lease liabilities	(254)
Non-cash transactions (Note 24(b))	396
Balance as at 31 December 2021	<u>(5,386)</u>
Balance as at 1 January 2022	(5,386)
Additions	(1,421)
Financing cash flows	213
Interest expenses on lease liabilities	(281)
Non-cash transactions (Note 24(b))	396
Balance as at 31 December 2022	<u>(6,479)</u>
Balance as at 1 January 2023	(6,479)
Financing cash flows	386
Interest expenses on lease liabilities	(219)
Termination of the lease (Note 14(c))	3,914
Non-cash transactions (Note 24(b))	396
Balance as at 31 December 2023	<u>(2,002)</u>
Balance as at 1 January 2024	(2,002)
Additions	(36,304)
Financing cash flows	192
Interest expenses on lease liabilities	(488)
Balance as at 30 June 2024	<u>(38,602)</u>
<b>Unaudited:</b>	
Balance as at 1 January 2023	(6,479)
Financing cash flows	386
Interest expenses on lease liabilities	(142)
Non-cash transactions (Note 24(b))	396
Balance as at 30 June 2023	<u>(5,839)</u>

### 25 Commitments

Significant capital expenditure contracted for as at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024 but not recognised as liabilities was as follows:

	<u>As at 1 January</u>	<u>As at 31 December</u>			<u>As at 30 June</u>
	2021	2021	2022	2023	2024
	RMB'ooo (Unaudited)	RMB'ooo	RMB'ooo	RMB'ooo	RMB'ooo
Property, plant and equipment	-	-	-	4,439	1,385

### 26 Contingencies

As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the Company did not have any significant contingent liabilities.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 27 Related party transactions

The following is a summary of the transactions carried out between the Company and its related parties during the Relevant Periods, and balances with related party transactions as at 31 December 2021, 2022 and 2023 and 30 June 2024.

#### (a) Name and relationship with related parties

The following companies are related parties of the Company that had significant balances and/or transactions with the Company as at/or during the Relevant Periods.

<u>Name</u>	<u>Relationship</u>
Xinyi City Construction Engineering Quality and Safety Affairs Center	Immediate holding company
Xinyi Xinjian Urban and Transportation Investment Development Co., Ltd.	Entity controlled by the PRC Government
Xinyi Municipal Government Investment Project Construction Center	Entity controlled by the PRC Government
Xinyi Xinye Industry and Industrial Park Investment Co., Ltd	Entity controlled by the PRC Government
Guangdong Xinyi Kaiyuan Co., Ltd	Entity controlled by the PRC Government
Xinyi Third People's Hospital	Entity controlled by the PRC Government
Xinyi Vocational and Technical School	Entity controlled by the PRC Government
Xinyi Twelfth Primary School	Entity controlled by the PRC Government
Xinyi Beijie Town Central Primary School	Entity controlled by the PRC Government
Xinyi Sixth Middle School	Entity controlled by the PRC Government
Xinyi Sixth Primary School	Entity controlled by the PRC Government
Xinyi Qianpai Town Central Kindergarten	Entity controlled by the PRC Government
Guangxi Construction Engineering Group third construction engineering Co., Ltd.	Entity controlled by the PRC Government
Gaozhou Construction Engineering Trade Service Center	Entity controlled by the PRC Government
China Construction Fifth Engineering Division Corp., Ltd.	Entity controlled by the PRC Government
Guangzhou Municipal Affairs Group Limited	Entity controlled by the PRC Government
China MCC20 Group Corp., Ltd.	Entity controlled by the PRC Government
Maoming Xinyi Construction Engineering Company	Entity controlled by the PRC Government
Xinyi City Xinhua Agriculture, Culture and Tourism Investment and Development Co., Ltd.	Entity controlled by the PRC Government
Xinyi People's Hospital	Entity controlled by the PRC Government
Guangdong Tianyi Cold Chain Logistics Co., Ltd.	Entity controlled by the PRC Government
Xinyi Market Supervision and Administration Bureau	PRC government administrative bureau
Xinyi Municipal Civil Affairs Bureau	PRC government administrative bureau
Xinyi Education Bureau	PRC government administrative bureau
Xinyi Public Security Bureau	PRC government administrative bureau
Pingtang Town People's Government of Xinyi City	PRC government administrative bureau
Xinyi City Zhushan Bridge Demolition and Reconstruction Project Management Office	PRC government administrative bureau
Xinyi City Bureau of Housing and Urban-Rural Development	PRC government administrative bureau

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 27 Related party transactions (Continued)

#### (b) Significant related party transactions

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (Unaudited)	2024 RMB'000
Addition of right-of-use assets					
- PRC government administrative bureaus (note (i))	1,048	1,421	-	-	-
- An entity controlled by PRC government	-	-	-	-	36,304
Interest expenses on lease liabilities					
- PRC government administrative bureaus (note (i))	36	86	96	49	42
- An entity controlled by PRC government	-	-	-	-	447
Interest income on other receivables					
- An entity controlled by the PRC Government (note (iv))	-	-	258	117	-
Provision of services					
- Immediate holding company (note (ii))	.*	-	85	4	43
- PRC government administrative bureaus and entities controlled by the PRC Government (note (iii))	2,305	8,550	15,600	6,818	9,753
	<u>2,305</u>	<u>8,550</u>	<u>15,685</u>	<u>6,822</u>	<u>9,796</u>

\* represents that the amount is less than RMB1,000 for respective year.

(i) The Company leases office premises from Xinyi City Bureau of Housing and Urban-Rural Development. The monthly rents payable by the Company during the leasing terms are determined with reference to the prevailing market prices.

In April 2024, the Company entered into a lease agreement with Xinyi Xinye Industry and Industrial Park Investment Co., Ltd, with a lease term of 20 years from April 2024. The leased properties will be used for offices and laboratories.

(ii) The Company provided testing services to the immediate holding company. The transaction price of the services is determined with reference to the prevailing market prices.

(iii) The Company provided testing services and inspection services to certain PRC government administrative bureaus and entities controlled by the PRC Government. The transaction price of the services is determined with reference to the prevailing market prices.

(iv) A loan with principal of RMB3,750,000 and a loan with principal of RMB4,100,000 were granted to the constructor of the new office building of the Company in January 2023 and March 2023, respectively. The loans are unsecured and bearing interest of 4.35% per annum. The loan interest inclusive of the related tax for the year ended 31 December 2023 amounted to RMB258,000. In December 2023, the loans and interest were fully repaid.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 27 Related party transactions (Continued)

#### (c) Significant balances with related parties

	<u>As at 1 January</u>	<u>As at 31 December</u>			<u>As at 30 June</u>
	2021 RMB'000 (Unaudited)	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Trade nature					
Lease liabilities (note (i))					
- PRC government administrative bureaus	436	936	2,292	2,002	1,852
- An entity controlled by PRC government	-	-	-	-	36,750
	<u>436</u>	<u>936</u>	<u>2,292</u>	<u>2,002</u>	<u>38,602</u>
Trade receivables (note (i), (ii))					
- Immediate holding company	-	-	-	2	-
- PRC government administrative bureaus and entities controlled by the PRC Government	10,563	11,393	21,926	11,800	19,349
	<u>10,563</u>	<u>11,393</u>	<u>21,926</u>	<u>11,802</u>	<u>19,349</u>
Contract liabilities					
- Entities controlled by the PRC Government	-	-	-	-	271
Prepayments					
- Entities controlled by the PRC Government (no te (iii))	-	-	-	2,798	-
Non-trade nature					
Other receivables					
- Immediate holding company (note (iv))	436	436	-	-	-

- (i) The balances of lease liabilities, trade receivables and prepayments were trade in nature and unsecured.
- (ii) The balances of trade receivables and prepayments were interest free.
- (iii) As at 31 December 2023, the balances was a prepayment for the purchase of equipments.
- (iv) The balance as at 1 January 2021 and 31 December 2021 were non-trade in nature, unsecured and interest free. The amount due from immediate holding company was repaid in December 2022.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 27 Related party transactions (Continued)

#### (d) Key management's compensation

Compensation for key management is set out as follows.

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Wages, salaries and bonuses	626	820	865	452	625
Pension costs — defined contribution plans, housing funds, medical insurances and other social insurances	272	268	398	219	248
Other employee benefits	61	94	74	48	75
	<u>959</u>	<u>1,182</u>	<u>1,337</u>	<u>719</u>	<u>948</u>

As at 1 January 2021 and 31 December 2021, 2022 and 2023 and 30 June 2024, the balance of the above compensation for key management is RMB162,000, RMB118,000, RMB174,000 and RMB113,000 and RMB80,000, respectively.

#### (e) Other individually insignificant transactions with government-related entities

The Company has certain transactions with PRC government administrative bureaus and entities controlled by the PRC Government including testing services and inspection services. Apart from the transactions disclosed above, the transactions with PRC government administrative bureaus and other entities controlled by the PRC Government which are collectively, but not individually, significant account for approximately 12.77%, 1.78% and 6.79% and 6.53% and 5.25% of the total revenue of the Company during the year ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023 and 2024, respectively.

These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not controlled by the PRC Government.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 28 Benefits and interests of directors

During the year ended 31 December 2021 and 2022 and six months ended 30 June 2023, there is no director appointed for the Company.

The directors received emoluments from the Company (including the emoluments in their role as senior management and employee before their appointment as directors) for the year/period ended 31 December 2023 and 30 June 2024 as follows:

	Wages, salaries and bonuses RMB'000	Pension costs – defined contribution plans, housing funds, medical insurances and other social insurances RMB'000	Other employee benefits RMB'000	Total RMB'000
<b>For the year ended 31 December 2023</b>				
<i>Executive directors:</i>				
Mr. Lai Feng (note (i))	156	71	17	244
Ms. Mai Jiayu (note (i))	131	61	10	202
Mr. Huang Fei (note (ii))	141	69	15	225
Mr. Zhang Xihua (note (ii))	131	60	8	199
<i>Non-executive directors</i>				
Ms. Zou Chan (note (i))	127	59	9	195
Mr. Chen Guangfu (note (iii))	-	-	-	-
	686	320	59	1,065
<b>For six months ended 30 June 2024</b>				
<i>Executive directors:</i>				
Mr. Lai Feng (note (i))	75	36	13	124
Ms. Mai Jiayu (note (i))	72	29	8	109
Mr. Huang Fei (note (ii))	68	33	10	111
Mr. Zhang Xihua (note (ii))	72	30	9	111
<i>Non-executive directors</i>				
Ms. Zou Chan (note (i))	59	28	8	95
Mr. Chen Guangfu (note (iii))	-	-	-	-
	346	156	48	550

- (i) Mr. Lai Feng, Ms. Mai Jiayu and Ms. Zou Chan were appointed as director since 7 July 2023.
- (ii) Mr. Huang Fei and Mr. Zhang Xihua were appointed as director since 26 October 2023.
- (iii) Mr. Chen Guangfu were appointed as director since 26 October 2023. The emoluments of the Mr. Chen Guangfu in relation to his services rendered for the Company since his appointment were borne by the immediate holding company. His emoluments were not allocated to the Company as the management of the Company considers there is no reasonable basis of allocation.

## **II. NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **28 Benefits and interests of directors (Continued)**

(a) Directors' retirement and termination benefits

During the Relevant Periods, there were no termination benefit nor no additional retirement benefit received by the directors except for the attributions to a retirement benefit scheme in accordance with the rules and regulations in the PRC.

(b) Consideration provided to the third parties for making available directors' services

During the Relevant Periods, the Company did not pay consideration to any third parties for making available directors' services.

(c) Information about loans, quasi-loans and other dealings in favor of directors, controlled bodies corporate by and connected entities with such directors

During the Relevant Periods, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries undertaking of the Company, where applicable, in favor of director.

(d) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted as at 1 January 2021 and 31 December 2021 and 2022 and 2023 and 30 June 2024 or at any time during the Relevant Periods.

### **29 Event occurring after the reporting period**

There are no other significant events after the end of the Relevant Periods and up to the date of this report, which may result in adjustments or additional disclosure to be made in this financial statements.



## **II. NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **30 Summary of other potentially material accounting policies**

#### **30.1 Foreign currency translation**

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in RMB, which is the Company’s functional currency and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

The Company’s foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses).

#### **30.2 Impairment of non-financial assets**

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period.

#### **30.3 Financial assets**

(a) Classification

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

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”) or through profit or loss), and
- those to be measured at amortised cost.

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

If collection of the amounts is expected in one year or less, they are classified as current assets, otherwise, they are presented as non-current assets.

The Company’s financial assets comprise trade receivables, other receivables and cash and cash equivalents which are measured at amortised cost.

(b) Recognition and derecognition

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

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30. Summary of other potentially material accounting policies (Continued)

#### 30.3 Financial assets (Continued)

##### (c) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset.

##### Debt instruments

Subsequent measurement of debt instruments depends on the Company’s business model for managing the asset and the cash flow characteristics of the asset. The Company held debt instruments classified as financial assets at amortised costs.

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

##### (d) Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 3.1 details how the Company determines whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment of other receivables are measured as either 12-month expected credit losses or lifetime expected losses method, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

#### 30.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheets where the Company currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

## **II. NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **30. Summary of other potentially material accounting policies (Continued)**

#### **30.5 Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions.

#### **30.6 Paid-in capital/share capital**

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

#### **30.7 Current and deferred income tax**

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

##### **(a) Current income tax**

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

##### **(b) Deferred income tax**

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

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

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

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

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30. Summary of other potentially material accounting policies (Continued)

#### 30.8 Employee benefits

##### (a) Short-term obligations

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

##### (b) Pension costs — defined contribution plans

The Company contributes on a monthly basis to a defined contribution plan organised by the relevant governmental authorities based on certain percentages of the salaries of the employees, subject to certain ceiling. The Company's liability in respect of these plans is limited to the contributions payable in each period. Other than the monthly contributions, the Company has no further payment obligations once the contributions have been paid. The Company's contributions to the defined contribution retirement scheme are expensed as incurred.

##### (c) Bonus plans

The expected cost of bonuses is recognised as a liability when the Company has a present legal or constructive obligation for payment of bonus as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus plans are expected to be settled within 1 year and are measured at the amounts expected to be paid when they are settled.

##### (d) Housing funds, medical insurances and other social insurance

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

##### (e) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30. Summary of other potentially material accounting policies (Continued)

#### 30.9 Related parties

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

- (a) The party is a person or a close member of that person's family and that person
- has control or joint control over the Company;
  - has significant influence over the Company; or
  - is a member of the key management personnel of the Company or of a parent of the Company.
- (b) The party is an entity where any of the following conditions applies:
- the entity and the Company are members of the same group;
  - one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  - the entity and the Company are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
  - the entity is controlled or jointly controlled by a person identified in Note (a);
  - a person identified in Note (a) 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); or
  - the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

The Company has certain related party transactions and outstanding balances with government-related entities, which are controlled, jointly controlled or significantly influenced by the PRC Government.

#### 30.10 Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares, and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(b) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## II. NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 30. Summary of other potentially material accounting policies (Continued)

#### 30.11 Leases

##### *The Company as a lessee under operating lease*

The Company leases properties and land use right. Rental contracts are typically made for fixed periods of 5 year to 18.5 years. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Contracts may contain both lease and non-lease components. However, for leases for which the Company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

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

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

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

## **II. NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **30. Summary of other potentially material accounting policies (Continued)**

#### **30.11 Leases (Continued)**

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

#### *The Company as a sublease lessor*

Sublease is a transaction for which an underlying asset is re-leased by a lessee ("sublease lessor") to a third party, and the lease ("head lease") between the head lessor and lessee remains in effect. In classifying a sublease, a sublease lessor shall classify the sublease as a finance lease or an operating lease as follows:

- if the head lease is a short-term lease that the entity, as a lessee, has accounted for the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis, the sublease shall be classified as an operating lease.
- otherwise, the sublease shall be classified by referenced to the right-of-use asset arising from the head lease as finance lease or operating lease.

When the sublease is classified as a finance lease, finance income shall be recognised over the lease term, based on a pattern reflecting a constant periodic rate of return on the sublease lessor's net investment in the lease. When the sublease is classified as an operating lease, lease payments from operating leases shall be recognised as income on either a straight-line basis or another systematic basis that is more representative of the pattern in which benefit from the use of the underlying asset is diminished.

#### **30.12 Dividend distribution**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

#### **30.13 Intangible assets**

The intangible assets of the Company are computer software, which are initially recognised and measured at costs incurred to acquire and bring them to use. The Company's software are amortised on a straight line basis over their estimated useful lives of 3 or 10 years.