Qingdao Holdings International Limited
青島控股國際有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 499)

2022 Annual Report

*For identification purposes only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Cui Mingshou *(Chairman)*
(appointed on 6 January 2023)
Mr. Wang Yimei *(Deputy Chairman and Chief Executive Officer) (appointed on 6 January 2023)*
Mr. Gao Yuzhen *(Chairman)*
(resigned on 6 January 2023)
Mr. Yuan Zhi *(Deputy Chairman and Chief Executive Officer) (resigned on 6 January 2023)*
Mr. Hu Liang

Non-executive Director:

Mr. Li Shaoran *(resigned on 6 January 2023)*

Independent Non-executive Directors:

Mr. Yin Tek Shing, Paul
Mr. Wong Tin Kit
Ms. Zhao Meiran
Mr. Li Xue

AUDIT COMMITTEE

Mr. Li Xue *(Chairman)*
Mr. Yin Tek Shing, Paul
Mr. Wong Tin Kit
Ms. Zhao Meiran

REMUNERATION COMMITTEE

Mr. Wong Tin Kit *(Chairman)*
Mr. Yin Tek Shing, Paul
Ms. Zhao Meiran
Mr. Li Xue

NOMINATION COMMITTEE

Mr. Cui Mingshou *(Chairman)*
(appointed on 6 January 2023)
Mr. Gao Yuzhen *(Chairman)*
(resigned on 6 January 2023)
Mr. Yin Tek Shing, Paul
Mr. Wong Tin Kit
Ms. Zhao Meiran
Mr. Li Xue

CORPORATE INFORMATION

COMPANY SECRETARY

Mr. Chan Kwong Leung, Eric

AUTHORISED REPRESENTATIVES

Mr. Wang Yimei *(appointed on 6 January 2023)*
Mr. Yuan Zhi *(resigned on 6 January 2023)*
Mr. Chan Kwong Leung, Eric

HONG KONG LEGAL ADVISER

King & Wood Mallesons
13/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

AUDITOR

Ernst & Young

PRINCIPAL BANKERS

China Citic Bank International Limited
Bank of Communications Co., Ltd.
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit No. 8, 26th Floor, Tower 1
Admiralty Centre
No. 18 Harcourt Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Corporate Services (Bermuda) Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
17/F, Far East Finance Center
16 Harcourt Road
Hong Kong

STOCK CODE

Hong Kong Stock Exchange: 499

WEBSITE

http://www.qingdaohi.com

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors"), I write to present the final results of the Qingdao Holdings International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022 (the "Year").

2022 was full of challenges to us with multiple outbreaks of the Covid-19 pandemic across the People's Republic of China (the "PRC"), which deeply interrupted our major business activities. In 2022, the Group recorded the revenue of RMB56.6 million (2021: RMB69.3 million) and a loss attributable to shareholders of RMB63.5 million (2021: profit of RMB8.4 million).

Due to the COVID-19 variants continuing to spread, the Group's business in research and development, production and sales of the digital Chinese calligraphy education equipment fell behind our expected targets when most of the installation works could not be implemented as scheduled according to purchase orders especially from schools which were temporarily shut-down due to the outbreak of Covid-19.

The PRC property market was also impacted adversely by the COVID-19 variant outbreak which led the business environment in the PRC to remain stagnant. In such circumstance, the demand in office leasing market decreased. With the implementation of certain government policies, the Group was also requested to exempt or provide certain rental waiver to the tenants. Despite of all these challenging factors, the overall performance of our investment property portfolio remained stable and generated stable income and cash flow to sustain the Group's continuous development.

To enhance and diversify its revenue streams, the Group has reached out to capture on the property development business, alongside with its current major business segments. We took an important strategic step in 2021 to acquire a land use right with designated purpose of constructing the Yong Kang Yuan project in Bengbu City, Anhui Province, the PRC. Going through an almost two years' detailed planning, the project is on the track and commenced construction in 2022. The Group is confident that the contractor, with strong expertise and profound experience and knowledge in industrial and civil engineering construction, will contribute towards the successful construction of the Yong Kang Yuan project into a modern residential-commercial self-contained complex district with discernible market value. The sale of the Yong Kang Yuan project with its salable building area is expected to generate reasonable revenue to the Group and hence benefit our shareholders ultimately.

The outbreak of COVID-19 since 2019 has created economic uncertainty and interruption to the PRC and Hong Kong and imposed negative impacts on all industries. With the announcements by the governments of PRC and Hong Kong of further relaxation of the pandemic prevention and control measures, the Group took the optimistic view that the business environment will gradually improve in year 2023 and that will pave the way for a satisfactory rebound of the Group's performance going forward.

The Board is currently seeking legal advice in respect of the breach of contract by Huizhou Jiuyu Real Estate Company Limited* (惠州市九煜置業有限公司) ("Huizhou Jiuyu") and is considering the options available to the Company, including but not limited to the commencement of legal proceedings, enforcement of the pledge on the Land or requesting for additional guarantees for the loan. The Company will make further announcement(s) to keep its shareholders and investors informed of any significant development of the breach as and when appropriate.

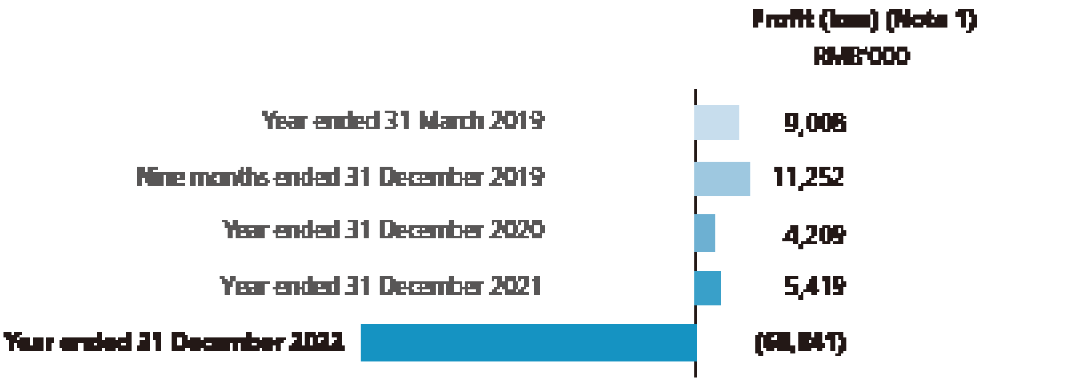
Meanwhile, the Group will adhere to prudent financial management and stringent cost control and will continue to explore good business and investment opportunities to drive our business growth, with the aim of bringing stable return to our shareholders and maximise shareholders' value.

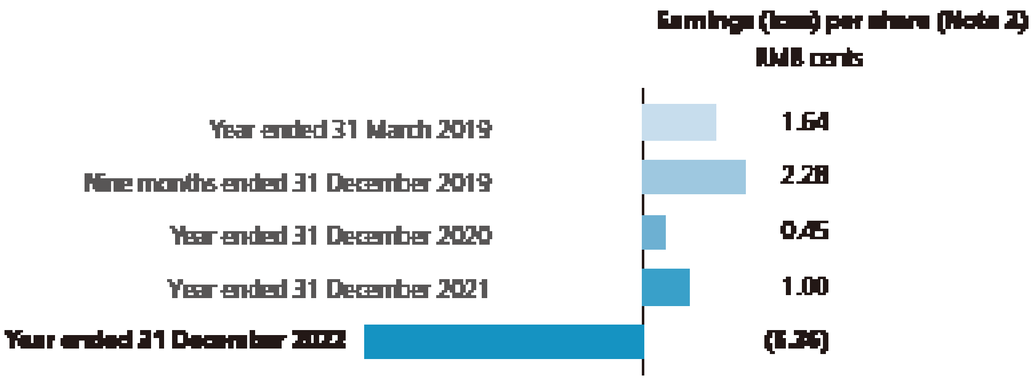
Finally, the Board would like to express our sincere gratitude to the management team and staff for their unremitting efforts and outstanding contributions to the development of the Group over the past year. The Board would also like to express our deep gratitude to the shareholders, investors, customers and partners who have always supported the Group. With the help and efforts of the above parties, the Group will surely move forward bravely, maintain continuous business growth, and strive for more value for all parties.

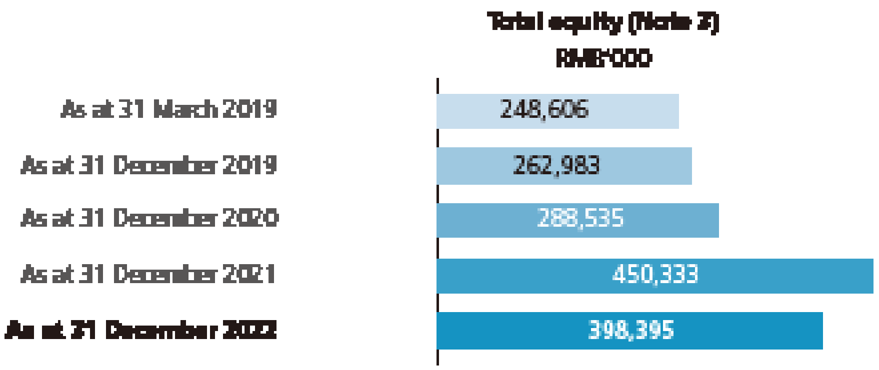
Cui Mingshou
Chairman

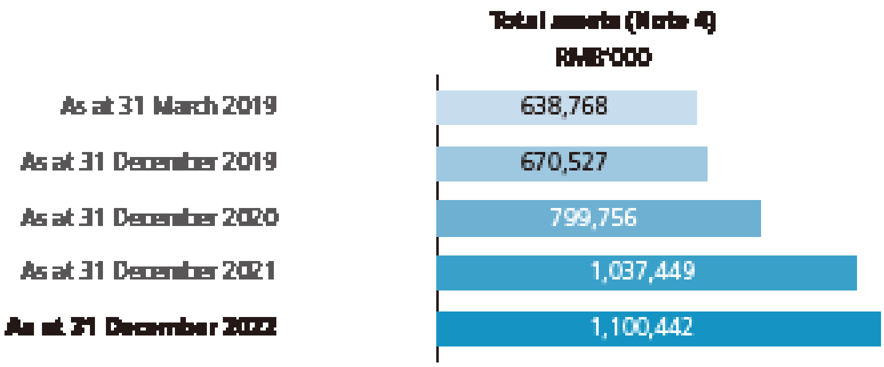
Hong Kong, 30 March 2023

FIVE-YEAR FINANCIAL SUMMARY









FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial period/years is set out below.

	Year ended 31 March 2019 RMB'000	Nine months ended 31 December 2019 RMB'000	Year ended 31 December 2020 RMB'000	Year ended 31 December 2021 RMB'000	**Year ended 31 December 2022 RMB'000**
Revenue	48,107	40,325	66,650	69,260	**56,601**
Profit/(loss) before tax	10,595	12,815	10,536	12,503	**(84,763)**
Income tax (expense)/credit	(1,587)	(1,563)	(6,327)	(7,084)	**15,922**
Profit/(loss) for the year/period	9,008	11,252	4,209	5,419	**(68,841)**
Attributable to:					
Owners of the parent	8,200	11,377	2,435	8,362	**(63,531)**
Non-controlling interests	808	(125)	1,774	(2,943)	**(5,310)**
	9,008	11,252	4,209	5,419	**(68,841)**

	As at 31 March 2019 RMB'000	As at 31 December 2019 RMB'000	As at 31 December 2020 RMB'000	As at 31 December 2021 RMB'000	**As at 31 December 2022 RMB'000**
Total assets	638,768	670,527	799,756	1,037,449	**1,100,442**
Total liabilities	(390,162)	(407,544)	(511,221)	(587,116)	**(702,047)**
	248,606	262,983	288,535	450,333	**398,395**
Equity attributable to:					
Owners of the parent	217,628	232,130	222,077	384,873	**338,245**
Non-controlling interests	30,978	30,853	66,458	65,460	**60,150**
	248,606	262,983	288,535	450,333	**398,395**

Notes:

1. Represents the consolidated profit/(loss) for the financial periods from 1 April 2018 to 31 March 2019, 1 April 2019 to 31 December 2019, year ended 31 December 2020, 2021 and 2022.

2. Represents the consolidated earnings/(loss) per share for the financial periods from 1 April 2018 to 31 March 2019, 1 April 2019 to 31 December 2019, year ended 31 December 2020, 2021 and 2022.

3. Represents the consolidated total equity at 31 March 2019, 31 December 2019, 2020, 2021 and 2022.

4. Represents the consolidated total assets at 31 March 2019, 31 December 2019, 2020, 2021 and 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the business of leasing of investment properties, production and sale of the digital Chinese calligraphy education equipment and relevant learning, tutorial systems and the provision of loan financing, consulting services and property development.

Leasing of Properties

During the Year, the rental income from the leasing of investment properties located in Hong Kong and the PRC amounted to approximately RMB25.5 million (2021: RMB27.4 million), which accounted for 45% of the Group's total revenue. Due to the impact of the fifth wave of the COVID-19 pandemic, rental income for our Hong Kong portfolio was down by 4% as one of the investment properties was vacant in the second half of 2022.

The outbreak of the highly contagious Omicron variant in the first half of 2022 negatively affected our performance as approximately RMB1.6 million of rental amount was waived in the second half of 2022 due to regulatory requirements by local PRC authorities.

Production and Sale of Digital Chinese Calligraphy Education Equipment

During the Year, revenue generated from the production and sale of digital Chinese calligraphy education equipment amounted to RMB31.1 million (2021: RMB41.9 million), which accounted for 55% of the Group's total revenue.

The resurgence of COVID-19 cases in various cities and provinces in the PRC and lockdowns that followed affected business performance of this segment during 2022. The installation works for our digital Chinese calligraphy education equipment in classrooms were delayed and the production and sales promotion activities initially scheduled for this business segment were disrupted because of the ravage of COVID-19 pandemic, which resulted in a deterioration in the performance of this segment.

Loan Financing

The Group's money lending business is conducted through its wholly-owned subsidiary and principally carrying out loan financing business by providing secured and unsecured loans to its customers. Through the business and social networks of the management of the Company, corporate customers and individual customers with personal wealth are identified. Before carrying out the money lending process, the Company would assess the credit of such potential customers based on its credit policy and procedure. The Group struck a balance by adhering to an effective comprehensive policy as well as prudent procedures relating to loan approvals, loan renewals, loan top-ups, loan recovery, loan compliance, monitoring and anti-money laundering. During the Year, the Group's loan financing business did not generate any revenue (2021: Nil). The Group did not grant any new loans during the Year as business activities had been slowing down due to the outbreak of the COVID-19. All loan receivables were settled in early 2020 with no outstanding loan receivables during the Year.

As part of the internal control system, the Group has implemented its credit risk assessment protocol in the ongoing operation of loan financing businesses. The Group conducts adequate and considerable amount of valuation and background checks before granting any loan. The Group obtains land search report, valuation report from banks on properties and valuation check, including but not limit to the marketable securities, unlisted securities and first legal charge or second legal charges in respect of properties or land; ascertains the financial condition of the customers including reviewing income/asset proof of individual customers and financial information of corporate customers; and conducts litigation searches and credit search on customers. The loan terms are determined with reference to factors including customers' requirements; result of credit assessment of customers, including whether regular income of customers are sufficient to cover loan repayment instalments; value of collaterals; past collection history and relevant forward-looking information of each customer.

The Group also monitors loan repayment and recoverability by adopting the procedures on monitoring loan repayment and recovery which involve the finance department of the Group performing financial analysis such as comparatives and outstanding loans, and valuation review of pledged assets and reporting to the executive directors at least monthly. In case of any delinquent loans, we will first issue standard demand letters. If no satisfactory response is received, we will instruct solicitors to issue formal legal demand letters. Thereafter formal legal proceedings may be issued where appropriate. The Group will continue to develop this business by employing prudent credit control procedures and strategies to maintain a balance between the business growth and the risk management.

In the event that there may be possible default in the loans or receivables concerned, such as customers in money lending business experienced operational difficulties, worsening of global or local economy leading to deterioration of financial conditions of customers, the Board shall refer to the audit committee and external auditor to seek their views on whether the provision for impairment loss under the expected credit loss model would be necessary.

Consulting Services

During the Year, the provision of consulting services segment did not generate any revenue (2021: Nil). The consulting services mainly included consulting services provided to property developers engaged in the construction works in new districts in the PRC.

Property Development

The Group had, through Bengbu City Huai Yi Construction and Development Ltd.* (蚌埠市淮翼建設發展有限公司) ("BCHYCDL"), an indirect owned subsidiary of the Company, successfully acquired the land use right in respect of a land where the project is located by way of bidding in March 2021. Upon completion of the acquisition of BCHYCDL, property development became one of the principal business activities of the Group. For details, please refer to the announcements of the Company dated 30 December 2022 and 30 January 2023, respectively.

FINANCIAL REVIEW

Revenue and Results

During the Year, the Group recorded a revenue of approximately RMB56.6 million (2021: RMB69.3 million). The Group recorded a loss attributable to the equity holders of the parent in the amount of approximately RMB63.5 million for the Year (2021: profit attributable to the equity holders of the parent of RMB8.4 million). Loss per share was RMB6.36 cents for the Year (2021: earning per Share of RMB1 cent). The significant decline was mainly attributable to (i) the substantial decrease in fair value of investment properties of the Group, in particular the properties located in the PRC, as a result of the unfavourable market conditions; (ii) the substantial increase in expected credit loss of amount due from a joint venture because of the breach of contract by Huizhou Jiuyu Real Estate Company Limited* (惠州市九煜置業有限公司) ("Huizhou Jiuyu"); and (iii) the impairment of goodwill due to the unfavourable business performance of the digital Chinese calligraphy education equipment segment during the Year.

Cost of inventories sold for the Year was approximately RMB18.6 million (2021: RMB24.6 million).

Other income for the Year was approximately RMB22.0 million (2021: RMB24.5 million), representing a decrease of approximately RMB2.5 million. The decrease was attributable to the decrease of interest income from loans which has been drawn.

In 2022, Huizhou Jiuyu failed to repay RMB191,600,000 of the principal of the loan (the "Loan") granted by the Group and approximately RMB7,006,000 of the interests of such loan (the "Breach"). Accordingly, an impairment loss for the amount of RMB43.58 million has been made. The Board is currently seeking legal advice in respect of the Breach and is considering the options available to the Company, including but not limited to the commencement of legal proceedings, enforcement of the pledge on the parcel of land which is located at No. 1 Court, Zhongkai Gaoxin District, Huizhou City, Guangdong Province, the PRC (中國廣東省惠州市仲愷高新區1號小區)(the "Land") or requesting additional guarantees for the Loan. For more details, please refer to the announcements of the Company dated 30 December 2022 and 3 January 2023, respectively. Furthermore, as the Group holds 49% of the equity interest in Huizhou Jiuyu, the Board expects that the Group shall benefit from the long term business development of Huizhou Jiuyu through providing funding to Huizhou Jiuyu for its business operation. Therefore, the Board is of the view that the loan shall not be classified as part of the Group's loan financing business of the Group. The Board is of the view that the Breach does not affect the normal operation of the Group.

Employee benefit expenses for the Year were approximately RMB14.0 million (2021: RMB14.4 million), representing a slight decrease of approximately RMB0.4 million.

Other operating expenses for the Year were approximately RMB18.0 million (2021: RMB27.8 million), representing a decrease of approximately RMB9.8 million. The decrease was mainly attributable to (i) the decrease in marketing expenses to promote our Chinese calligraphy education equipment as a resurgence of COVID-19 cases in various cities and provinces in the PRC, and (ii) the decrease in legal and professional fees arising from proposed acquisitions in 2021.

During the Year, the Group record a significant decrease of fair value of investment properties owing to the pandemic fueled office vacancies and decrease in demand particularly starting from the second half of the Year in both the PRC and Hong Kong property market.

Finance costs for the Year were approximately RMB23.7 million (2021: RMB23.4 million), representing an increase of RMB0.3 million.

Income tax credit for the Year was approximately RMB15.9 million (2021: income tax expense of RMB7.1 million). The increase was mainly because of the decrease in the deferred tax liabilities as the fair value of the 22nd Century Plaza decreased during the Year.

Segmental Information

An analysis of the Group's performance for the Year by business segment is set out in note 4 to the consolidated financial statements of annual report.

Dividends

The Board does not recommend the payment of any final dividends for the Year (2021: Nil).

Liquidity and Financial Resources

As at 31 December 2022, total current assets and current ratio (total current assets/total current liabilities) were approximately RMB571,327,000 (31 December 2021: RMB 478,431,000) and 1.65 (31 December 2021: 2.22) respectively.

As at 31 December 2022, the outstanding bank and other borrowings of the Group was approximately RMB49.5 million (31 December 2021: RMB82.6 million). Our business requires a significant amount of working capital, which is primarily used to finance the purchase of raw materials, capital spending for construction and acquisition of properties and land use rights, and product development costs. We have historically met our working capital and other capital requirements principally from cash generated from operations and borrowings from third-party financial institutions.

The gearing ratio of the Group, being the net debt to net debt and equity, was 57% as at 31 December 2022 (31 December 2021: 42%). The Directors believe that the Group has adequate cash resources to meet its commitments and current working capital requirements.

Capital Structure

The number of issued ordinary shares of the Company as at 31 December 2022 was 998,553,360 Shares (31 December 2021: 998,553,360 Shares).

The capital structure of the Group consists of debts, which includes bank borrowings, and equity attributable to owners of the parent, comprising share capital and reserves.

Pledge of Assets

As at 31 December 2022, the Group pledged certain of its investment properties with a market value of RMB136.7 million (31 December 2021: RMB132.3 million) to a bank in Hong Kong to secure mortgage financing facilities granted to the Group. As at 31 December 2022, the Group also pledged its leasehold land and building with a cost of RMB25.6 million (31 December 2021: RMB25.4 million) to a bank in PRC to secure mortgage financing facilities granted to the Group.

As at 31 December 2022, the Group had no unutilized banking facilities (31 December 2021: Nil).

Foreign Exchange Exposure

The Group's financial statements are presented in Renminbi. The Group carried out its business transactions mainly in HK$, RMB and United States dollars. The Group does not have any hedging arrangement on foreign exchange but will continue to closely monitor its foreign exchange exposure.

Capital Commitments

The Group did not have capital commitments including acquisition of subsidiary as at 31 December 2022 (2021: RMB1,982.3 million).

The Group's capital commitments including leasehold land and buildings and capital contributions payable to joint ventures amounted to approximately RMB28.9 million as at 31 December 2022 (2021: RMB32.2 million).

Contingent Liabilities

As at 31 December 2022 and 31 December 2021, the Group did not have any material contingent liabilities.

PROSPECTS

The outbreak of COVID-19 since 2019 has created economic uncertainty and interruption to the PRC and Hong Kong and imposed negative impacts on almost all industries. With the announcements by the governments of PRC and Hong Kong of further relaxation of the pandemic prevention and control measures, the Directors are confident that the business of the Group will gradually recover in the PRC and Hong Kong market. The Board is cautiously optimistic that the overall business environment will improve in 2023.

The Board is currently seeking legal advice in respect of the Breach and is considering the options available to the Company, including but not limited to the commencement of legal proceedings, enforcement of the pledge on the Land or requesting for additional guarantees for the Loan. The Company will make further announcement(s) to keep its shareholders and investors informed of any significant development of the Breach as and when appropriate.

For a longer-term perspective, riding on the resumption of economic activities after the outbreak of COVID-19, the Group will continue the product development effort on digital Chinese calligraphy education equipment and sales network in the PRC.

In addition, the Directors believe that the sale of the Yong Kang Yuan Project with its saleable building area is expected to generate reasonable revenue to the Group and hence benefit the Shareholders ultimately.

HUMAN RESOURCES

The Group aims to provide employees a stimulating and harmonious working environment. The Group also encourages life-long learning and offer trainings to its employees to enhance their performance and provide support to their personal development. As at 31 December 2022, the Group employed a total of 119 full time employees (31 December 2021: 129). Employees and Directors are remunerated based on their performance and experience, current industry practices and prevailing market conditions and in accordance with the existing labour laws. In addition to basic salaries, the employees and Directors are rewarded with performance-related bonuses and other staff welfare benefits.

Material Transactions

1. The Provision of Loan

On 15 November 2019, Qingdao Holdings (Hong Kong) Limited ("Qingdao (HK)"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement (the "Joint Venture Agreement") with China Nuclear Industry Zhongyuan Construction Co., Limited* (中國核工業中原建設有限公司) ("China Nuclear Industry") and China Huadong Construction and Engineering Group Limited* (中國華東建設工程集團有限公司) ("China Huadong") in relation to the formation of a joint venture company (the "Joint Venture Company"). The Joint Venture Company is principally engaged in urban reconstruction and development, construction and management of parks, construction and management of municipal facilities and equity investment and capital deployment in the PRC.

On 25 February 2020, the Joint Venture Company and Huizhou Meile Land Company Limited* (惠州市美樂置地實業有限公司) ("Meile Land"), an independent third party of the Company, established Huizhou Yanlong Land Company Limited* (惠州市炎隆置業有限公司) ("Huizhou Yanlong"). Huizhou Yanlong is 49% and 51% owned by the Joint Venture Company and Meile Land, respectively. Huizhou Jiuyu is wholly owned by Huizhou Yanlong. Huizhou Jiuyu is expected to acquire the land use rights of the Land.

Reason for provision of loan and alignment of business strategy of the Group

To provide Huizhou Jiuyu with part of the funding for the acquisition, development and operating expenses of the Land, Qingdao Qifeng Technology Services Co., Ltd.* (青島啟峰科技服務有限公司) ("Qifeng"), Qingdao Urban Rural Construction Micro-credit Loan Co. Ltd.* (青島城鄉建設小額貸款有限公司) ("QURC Micro-credit Loan Company") and Huizhou Jiuyu entered into an entrusted loan arrangement on 7 May 2020 (the "Entrusted Loan Arrangement"). Pursuant to the Entrusted Loan Arrangement, QURC Micro-credit Loan Company, acting as the lending agent, agreed to release a loan in the principal amount of RMB195,100,000 (the "Entrusted Loan"), which will be funded by Qifeng, to Huizhou Jiuyu, subject to the terms and conditions of the entrusted loan contract dated 7 May 2020 entered into among Qifeng, QURC Micro-credit Loan Company and Huizhou Jiuyu ("Entrusted Loan Contract") and the entrusted loan entrustment contract. QURC Micro-credit Loan Company is a non-banking financial institution approved and regulated by the relevant PRC regulatory authorities and is a connected person of the Company. As the Group holds 49% of the equity interest in Huizhou Jiuyu, the Board expects that the Group shall benefit from the long term business development of Huizhou Jiuyu through providing funding to Huizhou Jiuyu for its business operation, which also aligns with the business strategy of the Group.

The major terms of the Entrusted Loan Contract are set out below:

Date	:	7 May 2020
Parties	:	(i) Qifeng
		(ii) QURC Micro-credit Loan Company (as the lending agent)
		(iii) Huizhou Jiuyu (as the borrower)
Principal	:	RMB195,100,000
Interest rate	:	15% per annum. The accrued interest shall be payable semi-annually
Term	:	Two years from the drawdown date (inclusive) under the Entrusted Loan Contract

Condition precedent for the drawdown	:	The drawdown of the Entrusted Loan shall be subject to, among other things, the obtaining of the approval of the transactions contemplated under the Entrusted Loan Arrangement by the Board and the Independent Shareholders at the special general meeting of the Company and the provision of other documents and information requested by QURC Micro-credit Loan Company
Handling Fee	:	The handling fee shall be 0.3% of the amount of the Entrusted Loan which is payable on yearly basis. The handling fee shall be paid by Huizhou Jiuyu and is payable within five business days after the drawdown date and the first anniversary of the drawdown date, respectively
Use of proceeds	:	For the acquisition, development and operating expenses of the Land and the construction-in-progress property project on the Land
Repayment of principal	:	Huizhou Jiuyu shall repay the principal upon the expiry of the term of the Entrusted Loan
Default interest	:	If Huizhou Jiuyu fails to (i) repay the principal; or (ii) pay interest within the prescribed time period, QURC Micro-credit Loan Company will charge a default interest at the rate equal to 150% of the interest rate and such default interest will accrue on a daily basis until the full repayment of the overdue amount by Huizhou Jiuyu If Huizhou Jiuyu fails to apply the Entrusted Loan for the specified use of proceeds, QURC Micro-credit Loan Company is entitled to suspend the drawdown of any Entrusted Loan, declare that part or all of the previously drawdown Entrusted Loan become due and payable, and charge a default interest at a rate equal to 100% of the interest rate on the default amount If QURC Micro-credit Loan Company suspends the drawdown of the Entrusted Loan and declares immediate repayment by Huizhou Jiuyu, QURC Micro-credit Loan Company shall, upon receipt of the repayment from Huizhou Jiuyu (after deduction of any expenses arising from the loan collection), transfer the repayment amount to Qifeng
Early payment	:	Huizhou Jiuyu may make an early repayment of the principal before the expiry of the term with the consent of Qifeng and QURC Micro-credit Loan Company
Security	:	Upon the obtaining of the land use rights of the Land by Huizhou Jiuyu, Huizhou Jiuyu shall pledge the land use rights of the Land and its construction-in-progress property project on the Land in favour of QURC Micro-credit Loan Company as security for the purposes of the Entrusted Loan. Further, Huizhou Jiuyu shall procure (i) Meile Land to pledge its 51% equity interest in Huizhou Yanlong; (ii) Huizhou Yanlong to pledge its 100% equity interest in Huizhou Jiuyu; and (iii) Meile Land to provide the joint and several liability guarantee on the Entrusted Loan, in favour of QURC Micro-credit Loan Company as security for the purposes of the Entrusted Loan

On 7 May 2020, QCCIG entered into a loan agreement with Qifeng, pursuant to which, QCCIG agreed to provide, upon Qifeng's request, unsecured loan of RMB182,000,000 to Qifeng at an interest rate of 3.85% per annum ("Financial Assistance"). The Group used its internal resources and the Financial Assistance to fund the Entrusted Loan for the years ended 31 December 2020, 2021 and 2022.

As at the date of this annual report, the entrusted loan entrustment contract had been terminated, QURC Micro-credit Loan Company ceased to be the lending agent in relation to the Loan and the Loan was provided to Huizhou Jiuyu by Qifeng directly.

Impairment of the loan receivables

Based on the initial business plan of Huizhou Jiuyu, Huizhou Jiuyu intended to repay the principal and interest of the Loan by December 2022 through the proceeds from the sales of the properties on the Land. However, due to the restrictions imposed by the PRC Government due to the outbreak of COVID-19, the construction schedule of the properties on the Land was delayed and slowdown. As a result, Huizhou Jiuyu was not able to obtain the pre-sale permit as initially scheduled and sale of the properties on the Land has not commenced as at the date of this annual report. Accordingly, Huizhou Jiuyu failed to generate proceeds from the pre-sale of properties on the Land to repay the Loan. In addition, given the downturn in the real estate market in the PRC, it is expected that even after the pre-sale permit of the properties on the Land has been obtained and Huizhou Jiuyu proceeds with the pre-sale, the selling price of the properties on the Land will be lower than it was initially expected, and Huizhou Jiuyu may not be able to generate sufficient proceeds to repay the Loan in full.

Basis of impairment assessments

In 2022, Huizhou Jiuyu failed to repay RMB191,600,000 of the principal of the Loan and approximately RMB7,006,000 of the interests of such loan. The Company has taken into account the expected credit losses assessment as set out in Hong Kong Financial Reporting Standard 9 "Financial Instruments" (the "HKFRS 9") on the impairment assessment of the Loan in accordance with HKFRS 9. Details of the accounting policies in respect of the impairment assessment are set out in note 33 to the consolidated financial statements of this annual report. The Company engaged an independent third-party valuer to evaluate expected credit losses on loan receivables and the value of loan collateral. The valuer adopted the general approach for the valuation of the expected credit losses of the Entrusted Loan Arrangement (the "ECL Approach"). Under the ECL Approach, the valuation of the expected credit losses was based on the following formula:

ECL (Expected Credit Losses) = EAD x PD x LGD

PD (Probability of Default): the probability of default and the likelihood that the borrowers may fail to pay back the Loan. The Company will perform due diligence on the financial statements and consider the macro-environment and the latest information of the borrowers. The repayment record of the borrowers will also be taken into account;

LGD (Loss given Default): the loss given default and the expected cash shortfall between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive. The Company will consider the value of the collaterals pledged for the Loan, if any; and

EAD (Exposure at Default): the balance of the Loan exposed under default risk, including the principal and interests.

In addition, the valuer also adopted scenario analysis on deriving the result of expected credit losses, the valuer used different percentage of weights to base, optimistic and pessimistic scenarios accordingly and calculated the weighted average expected credit losses based on the above assumptions.

The Company considered that the Loan is in stage 3 of financial instrument impairment as at 31 December 2022. Accordingly, as at 31 December 2022, the expected credit losses evaluated by the independent third-party valuer amounted to RMB43,694,000 (31 December 2021: RMB116,000) were estimated by fair value of collateral and recovery rate. The loss rate applied at 31 December 2022 was 22.00% (31 December 2021:0.07%).

Follow up actions

The Group has engaged in ongoing negotiations and discussions with Huizhou Jiuyu on repayment arrangements to endeavour to reach a commercially feasible settlement plan. As at the date of this annual report, the Group had issued three demand letters to Huizhou Jiuyu for the immediate repayment of the Loan and the interest of the Loan. The Group has engaged an independent third-party valuer to conduct the relevant (i) valuation of expected credit losses of the Loan; and (ii) valuation of the collateral of the Loan. The Board is currently seeking legal advice in respect of the Breach and is considering the options available to the Company, including but not limited to the commencement of legal proceedings, enforcement of the pledge on the Land or requesting for additional guarantees for the Loan. The Board is of the view that the Breach does not affect the normal operation of the Group.

For further details, please refer to the announcements of the Company dated 7 May 2020, 30 June 2020, 30 December 2022 and 3 January 2023 and the circular of the Company dated 10 June 2020.

2. Construction Agreement

On 30 December 2022, BCHYCDL, an indirect owned subsidiary of the Company, entered into the Construction Agreement with the China Nuclear Industry Zhongyuan Construction Co., Limited* (中國核工業中原建設有限公司) ("Contractor"), pursuant to which BCHYCDL agreed to engage the Contractor to carry out the construction works of the Project (as defined below) at the consideration of RMB444,676,589.37 (subject to adjustments). The Contractor held 30% equity interest in NEQH Development and Construction Co. Ltd* (核建青控開發建設有限公司)("NEQH") and the Company held 51% equity interest in NEQH. Accordingly, the Contractor is a connected person of the Company at the subsidiary level under the Listing Rules. As such, the transactions contemplated under the Construction Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

The construction works include the construction of 14 main residential buildings, 2 commercial buildings, a kindergarten, and a basement (of which the aggregate above-ground construction area is about 132,952 sq.m, the aggregate basement construction area is about 36,792 sq.m, and the total construction area is about 169,744 sq.m (the "Construction Area")) located at north side of Gui Hua Road, south side of Long Hua Road, east side of Yong An Street and west side of Yong Kang Street, Huaishang District, Bengbu City, Anhui Province, the PRC (the "Bengbu Land"). The project is expected to be named as Yong Kang Yuan Southern District Project (the "Project").

The Consideration was determined after arm's length commercial negotiations between the parties to the Construction Agreement and primarily based on the hourly rates with reference to where applicable, the market position, expertise and work experience of the Contractor, and relevant industry salary level of similar construction works. The Consideration will be subject to adjustment based on the Actual Construction Period and the construction works conducted and with reference to the latest published price of labour and materials in Bengbu City and the cost of major construction materials.

The Group had, through BCHYCDL, successfully acquired the land use right in respect of the Bengbu Land where the Project is situated by way of bidding in March 2021. For details, please refer to the announcements of the Company dated 15 March 2021 and 24 May 2021, respectively. Upon completion of the acquisition of BCHYCDL, property development became one of the principal business activities of the Group. The terms of the Construction Agreement were reached after arm's length negotiations between BCHYCDL and the Contractor, and the entering into of the Construction Agreement is in the ordinary and usual course of business of the Group.

With the engagement of the Contractor through the Construction Agreement, the Group is confident that the Contractor, with strong expertise and profound experience and knowledge in industrial and civil engineering construction, will contribute towards the construction of the Project into a modern residential-commercial self-contained complex district with discernible market value. The sale of the Project with its salable building area is expected to generate reasonable revenue to the Group and hence benefit the Shareholders ultimately. In addition, Bengbu Government had indicated its intention of acquiring the Project.

For further details, please refer to the announcements of the Company dated 30 December 2022 and 30 January 2023, respectively.

Termination of the Very Substantial Acquisition, Issue of Convertible Bonds under the Specific Mandate and Rights Issue

On 17 March 2021, Yangfan (Holdings) Group Limited (揚帆(控股)集團有限公司) (a wholly owned subsidiary of the Company) (the "Purchaser") and China Qingdao Development (Holdings) Group Company Limited (華青發展(控股)集團有限公司) (the "Vendor"), being a controlling shareholder and a connected person of the Company, entered into a sale and purchase agreement, pursuant to which the Purchaser conditionally agreed to acquire (the "Acquisition"), and the Vendor conditionally agreed to sell, approximately 81.91% of the equity interest in Qingdao Rural Construction Financial Leasing Company Limited* (青島城鄉建設融資租賃有限公司).

The consideration in respect of the Acquisition (the "Consideration") shall be satisfied as follows: (i) approximately HK$154.5 million shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash upon completion of the Acquisition; and (ii) approximately HK$2,224.2 million shall be payable by the issue of the convertible bonds ("Consideration CB") by the Company to the Vendor (or its nominee(s)) upon completion of the Acquisition. The Acquisition constitutes a very substantial acquisition of the Company.

In order to raise sufficient funds to settle part of the Consideration and to finance the associated transaction expenses relating to the Acquisition, the Board proposed the offer of new Shares (the "Rights Issue"). The Company has completed the Rights Issue and issued 499,276,680 new Shares at the subscription price of HK$0.39 per Rights Share on the basis of one Rights Share for every one existing Share of the Company during the year ended 31 December 2021.

As the Purchaser and the Vendor could not agree on the consideration adjustment which reflects the current market value of the Target Group, the Purchaser and the Vendor agreed to terminate the Acquisition on 30 June 2022. Accordingly, the Consideration CB will not be issued to the Vendor. The Board considers the termination of the Acquisition shall have no material adverse impact on the existing business operation and financial position of the Group.

For details in relation to the Acquisition, please refer to the announcements of the Company dated 17, 22 and 24 March 2021, 13 April 2021, 17 and 31 May 2021, 13 July 2021, 26 November 2021, 29 March 2022, 8 April 2022 and 30 June 2022 and the circular of the Company dated 24 March 2021 and the prospectus of the Company dated 26 April 2021.

CHANGE IN USE OF PROCEEDS FROM THE RIGHTS ISSUE

The net proceeds from the Rights Issue (the "Net Proceeds") was approximately RMB159.9 million.

As disclosed in the announcement of the Company dated 30 June 2022 in relation to the change of use of proceeds from the Rights Issue, the Company intended to use 90% of the Net Proceeds, being approximately RMB143.91 million, for other suitable investment opportunities.

As at the date of this annual report, save for RMB38.16 million, which has been utilised for the settlement of bank loans, and RMB11.14 million, which has been utilised as general working capital of the Group, the remaining Net Proceeds remain unutilised and have been deposited with bank for short term interest income. As disclosed in the announcement of the Company dated 28 March 2023, having considered the business environment and development of the Group (in particular the current business environment in the PRC, being the place where the Group's principal business segments are operating), the Board had resolved to change the use of the Net Proceeds.

The details of the use of the Net Proceeds as at the date of this annual report are set out as follows:

Intended use of Net Proceeds	Actual use of the Net Proceeds up to the date of this annual report (RMB'million)	Unutilised balance as at the date of this annual report (RMB'million)	Proposed use of the unutilised Net Proceeds (RMB'million)
As general working capital of the Group	11.14	4.85	4.85
Investment opportunities	Nil	105.75	105.75
Repayment of bank loans	38.16	N/A	N/A

The bank loans were borrowed by the Company from a licensed bank for a term of 3 years commencing in 2019 and 2021 and carry the interest charge of HIBOR plus 2.2% per annum. The bank loans were used to inject registered capital in the PRC subsidiaries of the Company. Upon maturity of bank loans by December 2022, the Board applied the amount of RMB38.16 million out of the Net Proceeds to repay the bank loans ("Repayment").

When making the Repayment, the Board considered that the unutilised Net Proceeds following the Repayment would be adequate to meet the consideration required to acquire the Target Properties under the Potential Acquisition. In view of the wishes to improve the gearing ratio of the Group and strengthen the Group's efficiency and effectiveness of the capital use and overall financial position, the Company decided to proceed with the Repayment using the Net Proceeds. The Board considers that the Repayment with the Net Proceeds to be in the interest of the Group and the shareholders of the Company as a whole.

For details, please refer to the announcements of the Company dated 30 June 2022, 19 July 2022, and 28 March 2023, respectively.

EVENTS AFTER THE YEAR

Save as disclosed above, there is no event after the Year which would have a material impact on the Company's financial position.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Cui Mingshou ("Mr. Cui"), aged 55, was appointed as an executive Director, the chairman of the Board and the chairman of the nomination committee (the "Nomination Committee") of the Company on 6 January 2023. He is currently the chairman of 青島城投國際發展集團有限公司 (Qingdao City Investment International Development Group Co., Ltd.*) ("QCIIDG"), a wholly owned subsidiary of 青島城市建設投資(集團)有限責任公司 (Qingdao City Construction Investment (Group) Limited*) ("QCCIG") which is the ultimate controlling shareholder of the Company. Mr. Cui has over 30 years of experience in financial investment, capital operation, bulk commodities trading business and corporate management. Mr. Cui was the deputy general manager of 華青發展有限公司 (China Qingdao Development Limited*), the chairman of 青島城鄉社區建設投資集團有限公司 (Qingdao Urban and Rural Community Construction Investment Group Co., Ltd.*) and the chairman of 青島城鑫控股集團有限公司 (Qingdao Cheng Xin Investment Group Limited*), respectively. Mr. Cui obtained a master's degree in Business Administration from 西安交通大學 (Xi'an Jiaotong University*).

Mr. Wang Yimei ("Mr. Wang"), aged 44, was appointed as an executive Director, the deputy chairman of the board, the chief executive officer of the Company on 6 January 2023. He is also a director of a number of subsidiaries of the Company. Mr. Wang is currently a deputy general manager of QCIIDG and the chairman of China Qingdao Development (Holdings) Group Company Limited ("CQDHG"), the intermediate holding company of the Company. He is also a director of China Qingdao International (Holdings) Company Limited ("CQIH"). CQIH, the Company's controlling shareholder, is a wholly-owned subsidiary of CQDHG and CQDHG is wholly owned by QCCIG. Mr. Wang has been working in the fields of corporate management, securities and investment and has accumulated substantial practical experience. Mr. Wang was an executive Director from 26 November 2015 to 27 March 2020. Mr. Wang obtained a master's degree in business administration from 中國海洋大學 (Ocean University of China*).

Mr. Hu Liang ("Mr. Hu"), aged 41, was appointed as an executive Director on 27 March 2020. He graduated from the Department of Economics, Shandong University, Weihai with a Bachelor's degree in finance. He has over 10 years of extensive experience in finance especially in asset management, financial risk control and financial management. Mr. Hu had worked in the finance department of QCCIG, and served as the head of the risk control department of Qingdao Urban and Rural Community Construction Financing Guarantee Limited, and the assistant to general manager of Qingdao City Investment and Assets Management Company Limited. Mr. Hu is currently the deputy general manager of QCCIG (Hong Kong Area). He is also a director of CQDHG and a number of subsidiaries of the Company.

* *For identification purpose only*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yin Tek Shing, Paul ("Mr. Yin"), aged 80, was appointed as an independent non-executive Director on 27 September 2014. Mr. Yin is also a member of each of the Nomination Committee, the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. He acted as President of The Chinese Manufacturer's Association of Hong Kong from 2008 to 2009. He is currently the permanent honorary president of The Chinese Manufacturer's Association of Hong Kong, founding chairman of Hong Kong Brand Development Council, a member of the People's Political Consultative Standing Committee of Qingdao City and founding president of Hong Kong Qingdao Association Limited. Mr. Yin actively participates in serving the community and his services include acting as a member of Trade and Industry Advisory Board, a council member of Hong Kong Productivity Council, a member of Hong Kong Labour Advisory Board, a member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), a council member of Hong Kong Trade Development Council, and a committee member of Innovation and Technology Commission. He was awarded the Bronze Bauhinia Star by the HKSAR Government in 2003. He was appointed as Justice of the Peace in 2007 and was awarded the Silver Bauhinia Star by the HKSAR Government in 2009.

Mr. Wong Tin Kit ("Mr. Wong"), aged 66, was appointed as an independent non-executive Director on 27 September 2014. Mr. Wong is also the chairman of the Remuneration Committee and a member of each of the Nomination Committee and the Audit Committee. Mr. Wong served in Qingdao Ocean Shipping Company which is directly operated under the Ministry of Transport and is currently president of Xiang Long (Group) International Limited. He is also the chairman of Hong Kong Shandong Business Association, vice president of Shandong Overseas Chinese Chamber of Commerce, vice president of Shandong Province Association of Overseas Liaison and a member of the People's Political Consultative Standing Committee of Shandong Province.

Ms. Zhao Meiran ("Ms. Zhao"), aged 47, was appointed as an independent non-executive Director on 27 September 2014. Ms. Zhao is also a member of each of the Nomination Committee, the Remuneration Committee and the Audit Committee. Ms. Zhao is a Qingdao entrepreneur engaged in industries including trading and logistics and has extensive experience in corporate management. Ms. Zhao graduated from Shanghai University and currently serves as chairman of Qingdao Jinnuo Auction House, chairman of Qingdao Cheng Kun Trading Company Limited and general manager of America Los Angeles Travel Holiday Company Limited. Ms. Zhao has been an executive member of Qingdao Red Cross Dust Fund since 2010.

Mr. Li Xue ("Mr. Li"), aged 58, was appointed as an independent non-executive Director on 27 September 2014. Mr. Li is also the chairman of the Audit Committee, a member of each of the Nomination Committee and the Remuneration Committee. Mr. Li holds a Master Degree in Economics. He has engaged in the fields of auditing theory and practical research and obtained ample research findings in basic audit theory and environmental auditing theory. He is currently a professor and a tutor for master candidates at the Accounting Department of the Management College of Ocean University of China and the director of Audit and Management Consulting Institute of the Management College of Ocean University of China. Mr. Li is also a council member of Accounting Society of China, a member of China Audit Society, a council member of China Institute of Internal Audit and a member of the Chinese Institute of Certified Public Accountants. Mr. Li has been an independent non-executive director of Ruicheng (China) Media Group Limited, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 1640), since October 2019 and an independent director of 青島高測科技股份有限公司 (Qingdao Gaoce Technology Co., Ltd.*), the shares of which are listed on Shanghai Stock Exchange (stock code: 688556), since August 2021. He was also an independent director of 上海巴安水務股份有限公司 (SafBon Water Service (Holding) Inc., Shanghai*), the shares of which are listed on Shenzhen Stock Exchange (stock code: 300262), from May 2022 to December 2022. Mr. Li is currently an independent director of each of 青島靖帆新材料科技有限公司 (Qingdao Jingfan New Materials Technology Co., Ltd.*), 青島海灣化學股份有限公司 (Qingdao Haiwan Chemical Co., Ltd.*)及山東青鳥軟通信息技術股份有限公司 (ShanDong JB Soft&Info Technology Co.,Ltd.*).

* *For identification purpose only*

DIRECTORS' REPORT

The Board presents the annual report of the Company and the audited consolidated financial statements of the Group for the Year.

PRINCIPAL ACTIVITY

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 1 to the consolidated financial statements of this annual report.

RESULTS AND APPROPRIATION

The results of the Group for the Year are set out in the consolidated statement of profit or loss and the consolidated statement of comprehensive income on pages 66 to 67 of this annual report.

The Board does not recommend the payment of any final dividends for the Year (2021: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy") on 30 January 2019. According to the Dividend Policy, the Company considers it appropriate to align the dividend payments with profit and ensure that it is able to pay dividend on a sustainable and affordable basis. The Company may declare dividend in any financial year after taking into consideration the Company's financial position, liquidity and cash flow, capital requirement for future growth, economic conditions and any other factors to be considered by the Directors. The Company will declare dividend out of retained profit under certain circumstances, and therefore there can be no assurance that a dividend will be proposed or declared in any given year. The Company will review the Dividend Policy from time to time as and when considered necessary by the Board.

BUSINESS REVIEW

Business review of the Group for the Year has been stated in "Management Discussion and Analysis" of this annual report. An analysis of the Group's performance during the Year using financial key performance indicators is provided in Financial Summary on page 8 of this annual report.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 9 of this annual report.

RESERVES

Movements in reserves of the Group and the Company during the Year are set out on page 70 and in note 37 to the consolidated financial statements respectively. Total distributable reserves of the Company amounted to approximately RMB111,264,000 million (2021: RMB100,677,000) as at 31 December 2022.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the Year are set out in note 12 to the consolidated financial statements of this annual report.

INVESTMENT PROPERTIES

The investment properties of the Group were revalued as at 31 December 2022, resulting in revaluation loss of approximately RMB39.9 million (2022: a gain of RMB10.9 million).

Details of movements in the investment properties of the Group are set out in note 13 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of the share capital of the Company during the Year are set out in note 26 to the consolidated financial statements of this annual report.

PRINCIPAL PROPERTIES

Particulars of the Group's principal properties are set out on page 152 of this annual report.

BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors" on pages 22 to 23 of this annual report.

DIRECTORS

The Directors of the Company during the Year and up to the date of this report were:

Executive Directors:
Mr. Cui Mingshou *(Chairman)* (appointed on 6 January 2023)
Mr. Wang Yimei *(Deputy Chairman and Chief Executive Officer)* (appointed on 6 January 2023)
Mr. Gao Yuzhen *(Chairman)* (resigned on 6 January 2023)
Mr. Yuan Zhi *(Deputy Chairman and Chief Executive Officer)* (resigned on 6 January 2023)
Mr. Hu Liang

Non-executive Director:
Mr. Li Shaoran (resigned on 6 January 2023)

Independent non-executive Directors:
Mr. Yin Tek Shing, Paul
Mr. Wong Tin Kit
Ms. Zhao Meiran
Mr. Li Xue

Pursuant to bye-law 87 of the Bye-laws of the Company, Mr. Hu Liang and Ms. Zhao Meiran shall retire from office by rotation and, being eligible, have offered themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law 86(2) of the Bye-laws of the Company, Mr. Cui Mingshou and Mr. Wang Yimei, who were appointed as Directors on 6 January 2023, shall hold office until the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election at that meeting.

The directors who have served on the boards of directors of the subsidiaries of the Company as at the date of this report were:

Mr. Wang Yimei
Mr. Yuan Zhi
Mr. Hu Liang
Mr. Lv Qingdong
Mr. Li Xiang Gang
Mr. Hong Wei
Mr. Lu Fu Xi
Mr. Wu Guo Qing
Mr. Wang Yu Bo

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years and each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years.

None of the Directors who is proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation.

CONNECTED TRANSACTION

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company discloses the following connected transaction incurred during the Year.

On 30 December 2022, Bengbu City Huai Yi Construction and Development Ltd.* (蚌埠市淮翼建設發展有限公司) ("BCHYCDL"), an indirect owned subsidiary of the Company, entered into the Construction Agreement with the Contractor, pursuant to which BCHYCDL agreed to engage the Contractor to carry out the construction works of the Project (as defined below) at the consideration ("Consideration") of RMB444,676,589.37 (subject to adjustments). As at the date of the Construction Agreement, the Contractor held 30% equity interest in NEQH Development and Construction Co. Ltd* (核建青控開發建設有限公司) ("NEQH") and the Company held 51% equity interest in NEQH. Accordingly, the Contractor is a connected person of the Company at the subsidiary level under the Listing Rules. As such, the transactions contemplated under the Construction Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to the Construction Agreement, the Contractor will carry out the construction works which shall include the construction of 14 main residential buildings, 2 commercial buildings, a kindergarten, and a basement on the Land located in Huaishang District, Bengbu City, Anhui Province, the PRC, which is expected to be named as the Yong Kang Yuan Southern District Project ("Project").

The primarily purpose of the Project is to construct a self-contained district to provide (among others) residential units to accommodate 1,356 farmer families for resettlement.

The Consideration was determined based on the bidding price offered by the Contractor and will be subject to adjustment based on the Actual Construction Period and the construction works conducted and with reference to the latest published price of labour and materials in Bengbu City and the cost of major construction materials.

The first instalment:	Following the construction works of the Project having passed the acceptance inspection and within the second month after the audit to the cost of the construction works by independent construction cost audit firm is completed, 25% of the Consideration shall be paid.
The second instalment:	Following the construction works of the Project having passed the acceptance inspection and within the eighth month after the audit to the cost of the construction works by independent construction cost audit firm is completed, 25% of the Consideration shall be paid.
The third instalment:	Following the construction works of the Project having passed the acceptance inspection and within the fourteenth month after the audit to the cost of the construction works by independent construction cost audit firm is completed, 25% of the Consideration shall be paid.
The fourth instalment:	Following the construction works of the Project having passed the acceptance inspection and within the twentieth month after the audit to the cost of the construction works by independent construction cost audit firm is completed, 25% of the Consideration shall be paid.

Within one month after the construction works of the Project having passed the acceptance inspection, the Contractor shall submit the complete project settlement information to BCHYCDL for audit. BCHYCDL and the independent construction cost audit firm shall confirm whether the project settlement information meet the requirements within seven days of receipt and audit to the cost of the construction cost shall be completed within three months.

Under the Construction Agreement, BCHYCDL shall be entitled to retain a portion of the Consideration under each instalment of payment as performance guarantee of the Constructor (provided that the total amount of performance guarantee to be retained by BCHYCDL under the Construction Agreement shall not exceed 3% of the Consideration). If the Contractor fails to maintain the quality of the Project as agreed between the parties to the Construction Agreement and any defects of the Project are identified and confirmed, BCHYCDL shall be entitled to apply the performance guarantee to remedy and maintain the quality of the Project.

For further details of the above connected transaction, please refer to the announcements of the Company dated 30 December 2022 and 30 January 2023, respectively.

RELATED PARTY TRANSACTIONS AND CONTROLLING SHAREHOLDERS' AND DIRECTORS' INTERESTS IN CONTRACTS

The related party transactions are disclosed in note 33 to the consolidated financial statements and include transactions that constitute connected transactions and continuing connected transactions for which the disclosure requirements under the Listing Rules have been complied.

Save as disclosed above, there was no transaction, arrangement or contract of significance subsisting during or at the end of the Year in which a Director is or was materially interested, whether directly or indirectly and there was no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisting at the end of the Year or at any time during the Year.

No contract of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries was entered into during the Year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2022, none of the Directors and the chief executives and their associates of the Company had any interests and short positions in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

SHARE OPTIONS

At the annual general meeting of the Company held on 22 August 2013, the shareholders of the Company conditionally adopted the share option scheme (the "Share Option Scheme"), which became effective on 27 August 2013.

The primary purpose of the Share Option Scheme is to provide incentives to Directors and eligible participants and it remains in force for a period of 10 years commencing from 27 August 2013. Under the Share Option Scheme, the Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants to take up options to subscribe for shares in the Company:

(i) any Director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company (the "Affiliate"); or

(ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or

(iii) a company beneficially owned by any Director, employee, consultant, professional, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 22 August 2013 (the "Scheme Mandate Limit") unless approved by the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive Directors in excess of 0.1% of the shares of the Company in issue or with a value in excess of HK$5,000,000 in any 12-month period up to and including the date of grant must be approved in advance by the Company's shareholders.

Options granted must be taken up within 14 days from the date of grant and upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to a date to be determined and notified by the Directors or, in the absence of such determination, the earlier of the date on which the options lapse or the 10th anniversary of the date of grant. The exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company shares.

There have been no options granted under the Share Option Scheme since its adoption. As at the date of this report, options to subscribe for up to 49,927,668 shares of the Company, representing 5% of the total number of shares in issue of the Company (i.e. 998,553,360 shares), are available for issue under the Share Option Scheme.

The number of share options available for grant under the Scheme Mandate Limit as at 1 January 2022 and 31 December 2022 was both 49,927,668.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Options" on page 24 of this report, at no time during the Year was the Company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. In addition, none of the Directors, or their spouses or children under the age of 18 had any rights to subscribe for shares of the Company or had exercised any such rights during the Year.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Group's emolument policy and emoluments of Directors and senior management of the Group are recommended by the Remuneration Committee of the Company and approved by the Board, having regard to their duties and responsibilities with the Company, the prevailing market conditions, the benchmark of the industry and the performance of the Group. Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 8 to the consolidated financial statements of this annual report.

SUBSTANTIAL SHAREHOLDERS INTERESTS

So far as is known to the Directors and chief executives of the Company, as at 31 December 2022, the following persons (other than a Director or chief executive of the Company or their associates) had the following interests and short positions (if any) in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO.

Interests in the shares of the Company

Long positions

Name	Capacity	Number of shares held (Note)	Approximately percentage of the Company's total number of shares in issue
青島城市建設投資(集團)有限責任公司 (Qingdao City Construction Investment (Group) Limited*) ("QCCIG")	Interest of a controlled corporation	689,243,266	69.02%
China Qingdao Development (Holdings) Group Company Limited ("CQDHG")	Interest of a controlled corporation	689,243,266	69.02%
China Qingdao International (Holdings) Company Limited ("CQIH")	Beneficial owner	689,243,266	69.02%

Note: These 689,243,266 shares of the Company were held by CQIH, which is a wholly-owned subsidiary of CQDHG. CQDHG is wholly owned by QCCIG. By virtue of the SFO, QCCIG and CQDHG are deemed to be interested in the shares of the Company held by CQIH.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more of the total number of shares in issue of the Company as at 31 December 2022.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases and sales attributable to the Group's major suppliers and customers respectively for the Year are as follows:

Purchases

– the largest supplier	59%
– five largest suppliers in aggregate	74%

Sales

– the largest customer	34%
– five largest customers in aggregate	52%

None of the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's total number of shares in issue) has an interest in these major customers and suppliers.

* *For identification purpose only*

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The employees of the Group are one of the most important assets and stakeholders of the Group and their contribution and support are valuable at all times. The Group regularly reviews its compensation and benefits policies, according to the industry benchmark as well as the individual performance of the employees. Other fringe benefits, mandatory provident fund and share options are provided to retain loyal employees with the aim to form a professional staff and management team that can lead the Group to success.

We value our customers as our business partners and endeavour to provide a high level of quality products and quality service that provide best value for money. With regular professional inspections and testing during the production processes, the Group makes sure its products are safe for use and of excellent quality. The Group also maintains regular communications with its customers regarding the product provision and performance, in order to understand the needs and expectations of its customers and continues to make improvements on the quality of its products. In addition, regular discussions and meetings are held with tenants' team to address operational issues and to build a continuous improvement culture together.

Our suppliers are our business partners and we work with them closely to provide the same level of quality service to our customers. We fully understand that maintaining a reliable and sustainable supply chain is the key to the success of the Group's products. The Group selects suitable suppliers through the supplier assessment process to ensure that the suppliers can meet the required assessment criteria and standards, and deliver quality products and services. Moreover, inspections are carried out to verify the quality and safety standard of the materials and to ensure that they do not cause adverse impacts on the environment.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal financial risks are set out in note 36 to the consolidated financial statements of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group aims to create long-term value for its stakeholders, to provide a safe working environment to its employees, and to generate a positive impact on the society and the environment.

The Group is committed to supporting the environmental sustainability. The Group's commitment to sustainability is built on three pillars: reducing environmental impact, promoting social responsibility, and achieving economic growth. The Group's performance in protecting the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations.

Details of the discussion on the environmental policies and performance of the Company are set out in the section headed "Environmental, Social and Governance Report" on pages 45 to 59 of this annual report.

EQUITY-LINKED AGREEMENTS

Save for disclosed in the section headed "Share Options" on page 28 of this report, the Company did not enter into any equity-linked agreements during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year, none of the Directors is considered to have interests in the businesses which are considered to compete or likely to compete, either directly or indirectly, with businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

SUBSEQUENT EVENTS

Save as disclosed above, there is no event after the Year which would have a material impact on the Company's financial position.

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, the Directors, secretary and other officers and every auditor of the Company shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, shall or may incur or sustain by or by reasons of any act done, concurred in or omitted in or about the execution of their duties in their respective offices or otherwise in relation thereto.

The Company has taken out insurance against all losses and liabilities associated with defending any proceedings which may be brought against Directors and other officers of the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

During the Year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the Year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws of the Company, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

TAX RELIEF AND EXEMPTION OF HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 34 to 44 of this annual report.

CHANGE IN DIRECTOR'S INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in Director's information are set out below:

Name of Director	Details of changes
Mr. Li Xue	resigned as an independent director of 上海巴安水務股份有限公司 (SafBon Water Service (Holding) Inc., Shanghai*), the shares of which are listed on Shenzhen Stock Exchange (stock code: 300262) with effect from 30 December 2022.

Save for the above changes, there is no other information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

* *For identification purpose only*

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a public float of its shares as required by the Listing Rules throughout the Year and up to the date of this report.

RETIREMENT BENEFIT SCHEME

The Group operates a mandatory provident fund ("MPF") scheme for its employees. Particulars of the MPF scheme are set out in note 2.4 to the consolidated financial statements of this annual report.

CONFIRMATION OF INDEPENDENCE

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

AUDIT COMMITTEE

The Audit Committee has reviewed, with the management of the Company, the financial statements of the Group for the Year and discussed with the management of the Company on auditing, internal control, risk management systems and financial reporting matters. Information on the composition of the Audit Committee is set out in the Corporate Governance Report on page 37 of this annual report.

AUDITORS

The financial statements for the Year were audited by Ernst & Young ("EY"). EY shall hold the office until the conclusion of the forthcoming annual general meeting of the Company pursuant to the Bye-laws of the Company. A resolution will be submitted to the forthcoming annual general meeting to re-appoint EY as the auditor of the Company.

On behalf of the Board

Wang Yimei
Executive Director, Deputy Chairman and Chief Executive Officer

Hong Kong, 30 March 2023

CORPORATE GOVERNANCE REPORT

The Board recognises their mission to create value and maximise returns on behalf of the shareholders of the Company while at the same time fulfilling their corporate responsibilities. Accordingly, the Company strives to promote and uphold a balanced and high standard of corporate governance.

The Company has applied the principles and complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules during the Year except for certain deviations disclosed in this report.

BUSINESS STRATEGIES AND BUSINESS MODEL

In accordance with its strategic plans, the Group has through effective allocation of resources from the Mainland China as well as integration of capital and business operations successfully turned itself into an enterprise with core areas of business, including leasing of properties, production and sale of education equipment, loan financing, consulting services, and real estate development. Capitalizing on future development opportunities in China and Hong Kong, the Group strives to become an integrated business enterprise that will constantly create value for its shareholders. Based on its own resources and the internal and external factors of development, the Company will continue to expand its core and environmental protection business to enhance the growth of its services and products in the future. Committed to the promotion of high-quality corporate development, the Company has maintained a corporate culture in which the leadership team and the employees of the Group have demonstrated mutual commitment. This not only reflects the values, philosophy and visions of the corporation, but sets the direction for the achievement of the Group's strategic objectives and business strategies.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. The Company has made specific and reasonable enquiries of all Directors and is satisfied that they have complied with the Model Code throughout the Year.

BOARD OF DIRECTORS

The Board is responsible to the shareholders of the Company and all Directors are collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing performance and assessing the effectiveness of management strategies.

Composition of the Board

Currently, the Board comprises seven Directors, including three executive Directors, namely, Mr. Cui Mingshou, Mr. Wang Yimei and Mr. Hu Liang, and four independent non-executive Directors, namely, Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue. The biographical details of the Directors are set out on pages 22 to 23 of this annual report. The composition of the Board is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business operations and development of the Group. All Directors are aware of their collective and individual responsibilities to shareholders of the Company and have exercised their duties with care, skill and diligence and, thereby, have contributed to the performance of the Group.

During the Year, the positions of the chairman and the chief executive officer of the Company were held by separate individuals to ensure a balance of power and authority. Mr. Gao Yuzhen was the Chairman of the Board and Mr. Yuan Zhi was the chief executive officer of the Company. On 6 January 2023, Mr. Cui Mingshou was appointed as the Chairman of the Board and Mr. Wang Yimei was appointed as the chief executive officer of the Company in place of Mr. Gao Yuzhen and Mr. Yuan Zhi respectively, who both stepped down due to job arrangement.

The Company complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualification of accounting or related financial management expertise throughout the Year. The Board has received from each independent non-executive Director an annual confirmation of his/her independence and considers that all of them are independent under the guidelines set out in Rules 3.13 of the Listing Rules.

The Company has put in place mechanisms to ensure independent views and input are available to the Board. This is achieved by giving Directors access to external independent professional advice from legal advisers and auditor, as well as the attendance of all independent non-executive Directors at almost all the meetings of the Board and its relevant committees held during the Year.

The Board reviews the implementation and effectiveness of the aforementioned mechanisms on an annual basis.

The Board members have no financial, business, family or other material/relevant relationship with each other.

Term of Appointment of Non-executive Directors

Each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years, subject to retirement and re-election by rotation at the annual general meeting in accordance with the Bye-laws of the Company.

Responsibilities of the Board

The Board reviews the performance of the operating divisions against their agreed targets and budgets on a regular basis and also exercises a number of reserved powers, including but not limited to:

- formulating long-term strategies;
- setting objectives for management;
- approving public announcements including the interim and annual financial statements;
- setting dividend and other important policies;
- approving material borrowings and treasury policies; and
- assessing and committing to major acquisitions, disposals, formation of joint ventures and capital transactions.

The Board has established three Board committees, being the Audit Committee, the Remuneration Committee and the Nomination Committee, to oversee different areas of the Company's affairs.

The Directors are responsible for the preparation of the financial statements of the Company for each financial year and ensuring that they give a true and fair view of the state of affairs of the Group, the operating results and cash flows for that period. The Directors are also responsible for ensuring that proper accounting records which shall accurately reflect the financial position of the Group are maintained at all times.

All Directors have full access to accurate, relevant and timely information of the Group and are able to obtain independent professional advice on issues whenever deemed necessary.

Continuous Professional Development of Directors

During the Year, the Company provided regular updates on the business performance of the Group to the Directors. The Directors keep abreast of their responsibilities as a Director and the conduct, business activities and development of the Group. Every Director is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant statutory requirements. The Directors are encouraged to participate in continuous professional development courses and seminars to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the Year, the Directors participated in continuous professional development by way of attending trainings and/or seminars organized by professional organisations and director training webcasts organized by the Stock Exchange and also reading materials updating new practices, rules and regulations to keep themselves updated on the roles, functions and duties of a listed company director.

A summary of the training received by each Director for the Year is set out in the table below:

Directors	**Training/Seminars/ Reading materials**
Executive Directors:	
Mr. Cui Mingshou (Note 1)	N/A
Mr. Wang Yimei (Note 1)	N/A
Mr. Gao Yuzhen (Note 2)	✔
Mr. Yuan Zhi (Note 2)	✔
Mr. Hu Liang	✔
Non-executive Director:	
Mr. Li Shaoran (Note 2)	✔
Independent Non-executive Directors:	
Mr. Yin Tek Shing, Paul	✔
Mr. Wong Tin Kit	✔
Ms. Zhao Meiran	✔
Mr. Li Xue	✔

Note 1: appointed on 6 January 2023
Note 2: resigned on 6 January 2023

Board Meetings

Directors are consulted on matters to be included in the agenda for Board meetings and have accessed to advice and services to ensure that Board meeting procedures and all applicable rules and regulations are followed.

Under code provision C.5.1 of the CG Code, the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the Year, the Board held two regular Board meetings. For these Board meetings held during the Year, at least 14 days' notice had been given to all Directors. The significant matters concerning the business activities and operation of the Group had been either duly reported, discussed and resolved at these Board meetings or otherwise dealt with by the Board by way of written resolutions for expeditious commercial decisions making purposes. The Board will use reasonable endeavor to meet the requirement of code provision C.5.1 of the CG Code in the future.

Code provision C.2.7 of the CG Code stipulates that the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors. During the Year, no formal meeting was arranged between the Chairman of the Board and the independent non-executive Directors without the other Directors present due to tight schedules of the Chairman of the Board and the independent non-executive Directors. The independent non-executive Directors may communicate and discuss with the Chairman directly at any time to share their view on the Company's affairs. The Company considers that there are sufficient channels and communication for discussion of the Company's affairs between the Chairman and independent non-executive Directors in the absence of other Directors.

BOARD COMMITTEES

Audit Committee

During the Year, the Audit Committee comprised four independent non-executive Directors, namely, Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue (chairman of the Audit Committee). Mr. Li Xue has appropriate professional qualifications and experience as required by the Listing Rules.

The Audit Committee is responsible for reviewing the Group's financial information, overseeing the Group's financial reporting and risk management systems and internal control procedures and the effectiveness of the Group's internal audit function and making recommendations to the Board on the appointment, re-appointment and/or removal of the external auditors, including approving their remuneration and terms of engagement.

The primary duties of the Audit Committee are to review and advise on the accounting principles and practices adopted by the Group, and overview the auditing and financial reporting processes and the risk management and internal control systems of the Group, including reviews of the Group's interim and annual reports.

The Audit Committee held three meetings during the Year.

During the Year, the Audit Committee performed the following duties:

(a) reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2021 with the external auditors and the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2022 with recommendations to the Board for approval;

(b) reviewed the reports on risk management and internal control systems of the Group covering financial, corporate governance, internal control and operational functions;

(c) considered the independent auditor's independence and fees in relation to the audited consolidated financial statements of the Group for the year ended 31 December 2021, the unaudited interim consolidated financial statements of the Group for the six months ended 30 June 2022 and non-audit related services; and

(d) reviewed the Audit Planning for the consolidated financial statements of the Group for the Year.

Remuneration Committee

During the Year, the Remuneration Committee comprised four independent non-executive Directors, namely, Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit (chairman of the Remuneration Committee), Ms. Zhao Meiran and Mr. Li Xue.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Group's policy and structure for all remuneration of the Directors and senior management and make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment.

The Remuneration Committee held one meeting and passed written resolutions during the Year.

During the Year, the Remuneration Committee performed the following duties:

(a) reviewed and recommended the remuneration packages of the existing Directors; and

(b) reviewed and recommended the revised terms of reference of the Remuneration Committee.

The emoluments payable to Directors are determined by the Board under the recommendations of the Remuneration Committee with reference to the Directors' duties and responsibilities with the Company, the prevailing market conditions, the benchmark of the industry and the performance of the Group.

Nomination Committee

During the Year, the Nomination Committee comprised one executive Director, namely, Mr. Gao Yuzhen (chairman of the Nomination Committee) and four independent non-executive Directors, namely, Mr. Yin Tek Shing, Paul, Mr. Wong Tin Kit, Ms. Zhao Meiran and Mr. Li Xue. On 6 January 2023, Mr. Cui Mingshou was appointed the chairman of the Nomination Committee in place of Mr. Gao Yuzhen, who stepped down due to job arrangement.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy and to assess the independence of the independent non-executive Directors.

The Nomination Committee held one meeting during the Year.

During the Year, the Nomination Committee performed the following duties:

(a) assessed the independence of the independent non-executive Directors;

(b) reviewed the structure, size and composition of the Board; and

(c) reviewed and recommended the retiring Directors standing for re-election at the 2022 annual general meeting.

Diversity

On 30 January 2019, the Board adopted the revised Board Diversity Policy. Pursuant to the Board Diversity Policy, in reviewing the Board's diversity, the Board will consider including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. New Directors, being individuals who are suitably qualified and expected to make a positive contribution to the performance of the Board and having regards to the criteria stated in the Board Diversity Policy, are identified and submitted to the Board or the shareholders of the Company for approval either to fill vacancies on the Board or to be appointed as additional Directors.

Currently, there is one female Director (Independent Non-executive Director) and six male Directors (comprising two Executive Directors and three Independent Non-executive Directors). Female representation on the Board is approximately 12.5%. The Board targets to maintain at least the current level of female representation and will continue to take opportunities to increase the proportion of female members over time as and when suitable candidates are identified. The Nomination Committee will also continue to monitor and actively consider different aspects of diversity in the boardroom, and recommend further actions or plan to the Board when necessary.

As at 31 December 2022, the Group's workforce is more than 35% female. The Board considers that the Group's workforce are diverse in terms of gender. The table below summarizes the share of women at different position levels across the Group as at 31 December 2022.

	Level			
Gender	**Director**	**Senior Management**	**Manager**	**Employee**
Male	7	–	16	54
Female	1	–	5	36

Note: The above data is calculated based on the number of total employees of the Group as of 31 December 2022.

On 30 January 2019, the Board adopted the Nomination Policy, which sets out the key selection criteria and nomination procedures of the Nomination Committee in making recommendations to the Board on the appointment of Directors or re-appointment of any existing Director(s) and succession planning for Directors.

According to the Nomination Policy, the ultimate responsibility for selection and appointment of Directors rests with the entire Board or the shareholders in general meetings as the case may be. The Board has delegated the relevant screening and evaluation process to the Nomination Committee, which identifies suitably qualified Director candidates and recommends them to the Board. In assessing the suitability of a proposed candidate, the Nomination Committee takes into consideration the candidate's good character, integrity and competent to act as Director, skills, knowledge and experience in the commercial and professional fields which are relevant to the principal business of the Group, his/her commitment to devoting sufficient time and attention to the Board and on merit, against objective criteria and with due regard to the diversity perspectives set out in the Board Diversity Policy. After undertaking adequate due diligence in respect of the appointment of the proposed candidate to the Board, the Nomination Committee nominates the relevant candidates to the Board for approval and appointment. The Board will make recommendation to the shareholders in respect of the proposed re-election of Directors at general meetings.

The Nomination Committee shall review the Nomination Policy, as appropriate, to ensure its effectiveness. It shall discuss any revisions to the Nomination Policy that may be required and make recommendation to the Board for approval.

The written terms of reference of the Audit Committee, the Remuneration Committee and the Nomination Committee are available on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.qingdaohi.com).

Details of the attendance of individual Directors at Board meetings, Board committees meetings, the annual general meeting (the "AGM") held during the Year are set out in the table below:

	Number of meetings attended/Eligible to attended				
Members of the Board	**Board Meeting**	**Audit Committee Meeting**	**Remuneration Committee Meeting**	**Nomination Committee Meeting**	**AGM**
Executive Directors:					
Mr. Cui Mingshou (appointed on 6 January 2023)	N/A	N/A	N/A	N/A	N/A
Mr. Wang Yimei (appointed on 6 January 2023)	N/A	N/A	N/A	N/A	N/A
Mr. Gao Yuzhen (resigned on 6 January 2023)	0/2	N/A	N/A	0/1	0/1
Mr. Yuan Zhi (resigned on 6 January 2023)	1/2	N/A	N/A	N/A	1/1*
Mr. Hu Liang	2/2	N/A	N/A	N/A	1/1*
Non-executive Director:					
Mr. Li Shaoran (resigned on 6 January 2023)	1/2	N/A	N/A	N/A	0/1
Independent Non-executive Directors:					
Mr. Yin Tek Shing, Paul	2/2	3/3	1/1	1/1	1/1#
Mr. Wong Tin Kit	2/2	3/3	1/1	1/1	1/1*
Ms. Zhao Meiran	1/2	2/3	1/1	1/1	1/1*
Mr. Li Xue	2/2	3/3	1/1	1/1	1/1*

* Attended by telephone
\# Attended in person

Code provision C.1.6 of the CG Code stipulates (among others) that generally, independent non-executive directors and other non-executive directors should also attend general meetings to gain and develop a balanced understanding of the views of shareholders. Due to the travel restrictions imposed as a result of the COVID-19 outbreak, all Independent Non-executive Directors (except Mr. Yin Tek Shing, Paul) could not attend the AGM in person, and instead they joined the AGM by electronic means. Mr. Li Shaoran, the non-executive Director, did not attend the AGM as he had other business engagement on the date of the AGM.

Code provision F.2.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting. Due to the travel restrictions imposed as a result of the outbreak of COVID-19, Mr. Gao Yuzhen, the former Chairman of the Board and the Nomination Committee, could not attend the AGM. Mr. Yin Tek Shing, Paul, the Independent Non-executive Director, was appointed the chairman of the meeting and acted as the delegate of Mr. Gao Yuzhen to answer Shareholders' questions. The Company considers that together with other members of the Board who attended the AGM by electronic means, there were sufficient calibres for answering questions at the AGM.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for performing the corporate governance duties as set out below:

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

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

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

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE AND INDEMNITY

To indemnify the Directors and officers of the Company against all costs, charges, losses, expenses and liabilities incurred by them in the execution of and discharge of their duties or in relation thereto, the Company has arranged insurance cover for this purpose.

FINANCIAL REPORTING

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group. The responsibilities of the Directors are to oversee the preparation of the consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of its results and cash flows for that period. The Directors have to ensure that the consolidated financial statements of the Group are in accordance with the statutory requirements and applicable accounting standards, adjustments and estimates made are prudent, fair and reasonable and the consolidated financial statements are prepared on a going concern basis. The Directors also acknowledge that the publication of the consolidated financial statements of the Group should be made in a timely manner.

The statement of the independent auditor regarding their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 60 to 65 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board recognises its responsibility to ensure the Company maintains a sound and effective risk management and internal control systems. The Group's internal control system is designed and established to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, reliable financial and accounting records are maintained in accordance with the relevant accounting standards and regulatory reporting requirements, and key risks that may have impact on the Group's performance are appropriately identified and managed. The annual review of the Group's internal controls covers major financial, operational and compliance controls, as well as risk management functions. The internal control system can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Group's risk management framework includes risk identification, risk assessment, risk treatment and monitoring and reviewing of the effectiveness of the measures. This risk management framework is guided by the three-tier risk management approach. At the first line of defense, business units are responsible for identifying, assessing and monitoring risks associated with each business or deal. The management, as the second line of defense, defines rule sets and models, provides technical support, develops new systems and oversees portfolio management. It ensures that risks are within the acceptable range and that the first line of defense is effective. As the final line of defense, the Audit Committee, with the professional advices and opinions from the external professional consultant by whom internal audit work of the Group was conducted on annual basis, ensures that the first and second lines of defense are effective through constant inspection and monitoring.

The Board has engaged an external professional consultant to review the risk management and internal control systems for the Year. The review covers all material controls, including financial, operational and procedural compliance controls as well as the process for identification, evaluation and management of the significant risks (including Environmental, Social and Governance ("ESG") risks) faced by the Group. The Audit Committee and the Board have discussed and reviewed the results of the review. The Board considers the review effective and adequate. Where appropriate, the external professional consultant's recommendations have been adopted and enhancements to the risk management and internal controls have been made.

The Group has established procedures in handling and dissemination of inside information in an accurate and secure manner and to avoid possible mishandling of inside information within the Group.

ESG COMPLIANCE AND GOVERNANCE

The Group recognises the importance of climate change avoidance and has developed internal strategies aimed at creating sustainable value for its stakeholders and minimizing its negative impact on the environment. To carry out the Group's sustainability strategy from top to bottom, the Board holds ultimate responsibility for ensuring the effectiveness of the Group's ESG strategies, including those relating to climate change.

Dedicated teams have been established within each business division to manage ESG issues and monitor progress toward corporate goals for addressing climate change. These teams are responsible for enforcing and overseeing the implementation of relevant ESG policies throughout the Group and have designated staff members to carry out these tasks.

The Group's management and responsible teams regularly review and adjust its sustainability policies to meet the evolving needs of stakeholders, including those related to climate change. Detailed ESG risk and information on the Group's management approaches for environmental and social aspects including climate change avoidance can be found in various sections of the ESG Report on pages 45 to 59 of this annual report. The Board is satisfied with the adequacy of the Group's resources, staff qualifications and experience, training programs and budget relating to ESG performance and reporting.

EXTERNAL AUDITOR

During the Year, the fees paid/payable to the auditor and its affiliated firms in respect of audit and non-audit services provided by the auditor and its affiliated firms were as follows:

Nature of services	**Amount** HK$'000
Audit service	1,780
Agreed-upon procedures in respect of unaudited interim financial statements	770

The re-appointment of Messrs. Ernst & Young as auditor of the Company has been recommended by the Audit Committee and endorsed by the Board and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company.

COMPANY SECRETARY

Mr. Chan Kwong Leung, Eric ("Mr. Chan") is the company secretary of the Company. He is a director of a corporate service provider. Mr. Yuan Zhi, an executive Director, was the primary corporate contact person of the Company during the Year. Following the resignation of Mr. Yuan Zhi as an executive Director with effect from 6 January 2023, Mr. Wang Yimei, an executive Director, became the primary corporate contact person at the Company as from that date.

In accordance with Rule 3.29 of the Listing Rules, Mr. Chan has taken no less than 15 hours of the relevant professional training during the Year.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board communicates with its Company's shareholders and investors through various channels. The Board members meet and communicate with shareholders and investors at AGMs and other general meetings where shareholders can obtain better understanding of the business and operating performance of the Group. Corporate communications (such as interim and annual reports, notices, circulars and announcements) are sent to shareholders in a timely manner and are available on the websites of the Company and the Stock Exchange.

The Company has adopted the Shareholders Communication Policy, which is available on the Company's website and sets out the Group's objective of ensuring timely, transparent and accurate communications between the Shareholders and the Company. The Board reviewed the Shareholders Communication Policy and the Group's shareholders and investor engagement and communication activities conducted in 2022 and was satisfied with the implementation and effectiveness of the Shareholders Communication Policy.

SHAREHOLDERS' RIGHTS

Procedures for convening a special general meeting by shareholders

To request to convene a special general meeting, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda. For details, please refer to the Bye-laws of the Company.

Procedures for putting forward proposals at general meetings

The following shareholders can submit a written requisition to move a resolution at a general meeting of the Company:

(i) any number of shareholders representing not less than one-twentieth (5%) of the total voting rights of all shareholders having at the date of the requisition a right to vote at the general meeting; or

(ii) not less than one hundred (100) shareholders.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the Company's principal place of business in Hong Kong at Unit No. 8, 26th Floor, Tower 1, Admiralty Centre, No. 18 Harcourt Road, Hong Kong. The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Sections 79 and 80 of the Companies Act 1981 of Bermuda once valid documents are received.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the following channel:

The Board of Directors
Qingdao Holdings International Limited
Unit No. 8, 26th Floor
Tower 1, Admiralty Centre
No. 18 Harcourt Road, Hong Kong
Email: info@qingdaohi.com

Shareholders may also direct enquiries to the Board at the general meetings of the Company.

CHANGES IN CONSTITUTIONAL DOCUMENTS OF THE COMPANY

There were no changes in constitutional documents of the Company during the Year.

SUSTAINABLE DEVELOPMENT OBJECTIVES

The Board of the Group understands its responsibility and is committed to leading and stewarding the Group with the aim to create long-term value for its stakeholders, to provide a safe working environment to its employees, and to generate a positive impact on the society and the environment. This Environmental, Social, and Governance ("ESG") report (the "Report") outlines the Board's commitment to sustainable development practices and its vision for addressing the challenges of climate change.

The Group has set ambitious sustainable development objectives, focusing on reducing its environmental impact, promoting social responsibility, and achieving economic growth. The Group recognizes the urgent need to address climate change and has developed a clear vision for tackling this challenge. The Group's climate change vision includes:

1. Carbon neutrality: The Group is committed to becoming carbon neutral by reducing its greenhouse gas emissions.

2. Sustainable operations: The Group will promote sustainable operations by adopting green energy practices, reducing waste, and increasing resource efficiency.

3. Sustainable supply chain: The Group will work with its suppliers to promote sustainable practices throughout its supply chain, including responsible sourcing of materials and products.

4. Advocacy and leadership: The Group will use its influence and expertise to advocate for policies and practices that promote sustainability and address climate change. It will also work to raise awareness of the importance of sustainability among its stakeholders.

Sustainability Statement of the Board

The board of directors recognized the urgent need to address the challenges of climate change and environmental degradation, and committed to driving sustainability and pursuing a vision of a prosperous future that is aligned with environmental stewardship.

The Group's commitment to sustainability is built on three pillars: reducing environmental impact, promoting social responsibility, and achieving economic growth. The Group believed that by focusing on these areas, it can contribute to a more sustainable world while also securing the long-term success of the Group.

To reduce environmental impact, the Group strives to reduce its greenhouse gas emissions. Through identifying areas where the Group can reduce its environmental footprint, such as energy consumption, waste management, and transportation. The Group also works to source materials and products from sustainable sources and promote circular economy principles.

Promoting social responsibility is an essential aspect of the Group's sustainability strategy. The Group is committed to promoting diversity, equity, and inclusion throughout its operations and supply chain, ensuring that the operations and products are produced in compliance with the highest social and ethical standards. The Group also strives to promote sustainability within the local communities, supporting initiatives that promote environmental stewardship and social responsibility.

The Group believed that sustainability and economic growth are not mutually exclusive. By pursuing sustainable practices, it can drive innovation, reduce costs, and increase efficiency, ultimately leading to a more prosperous future. The Group will continue to explore in new technologies and research to promote sustainability and drive long-term growth.

ESG Approach and Commitment

The Group recognizes that ESG factors are crucial indicators of a company's non-financial performance, valuation, risk management, and regulatory compliance. The Group has adopted a comprehensive approach to ESG reporting that includes assessing and evaluating ESG-related risks, reporting performance, setting strategic goals, supervising management effectiveness, and ensuring operational compliance with relevant legal and regulatory requirements. The Group has demonstrated a commitment to transparency and accountability, both qualitative information and quantitative are provided in the Report ensuring that its stakeholders are kept informed of its sustainability performance.

ABOUT THIS REPORT

The Report has shown the Group's commitment to sustainable development practices and its clear vision for addressing climate change. The report is a valuable tool for stakeholders to understand the Group's sustainability performance and its efforts to build a more sustainable future. Additionally, the Group has taken steps to ensure consistency between the Chinese and English versions of the Report, the Board reviewed and approved the Report on 30 March 2023, marking a significant milestone in the Group's sustainability journey.

Reporting Scope

The Report provides a comprehensive overview of the Group's performance in the areas of environmental, social, and governance considerations. The Report demonstrates the Group's commitment to driving sustainable development in a rapidly evolving landscape. The Group has operations in Hong Kong, Qingdao, and Jinan, the PRC, and the Report was prepared in accordance with reporting principles of materiality, quantitative analysis, balance, and consistency. The Group's dedication to gathering and analysing relevant data, formulating and implementing policies, and monitoring progress is evident throughout the Report.

Reporting Period

The Report illustrated and highlighted the environmental and social performance of the Group for the period from 1 January 2022 to 31 December 2022 (the "Reporting Period").

Reporting Framework

The Report was prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide") contained in Appendix 27 to the Listing Rules. The Report complied with the "comply or explain" provisions of the ESG Guide. For a full list of ESG aspects, respective key performance indicators ("KPIs") and their references within the Report, is included at the end of the Report for reference.

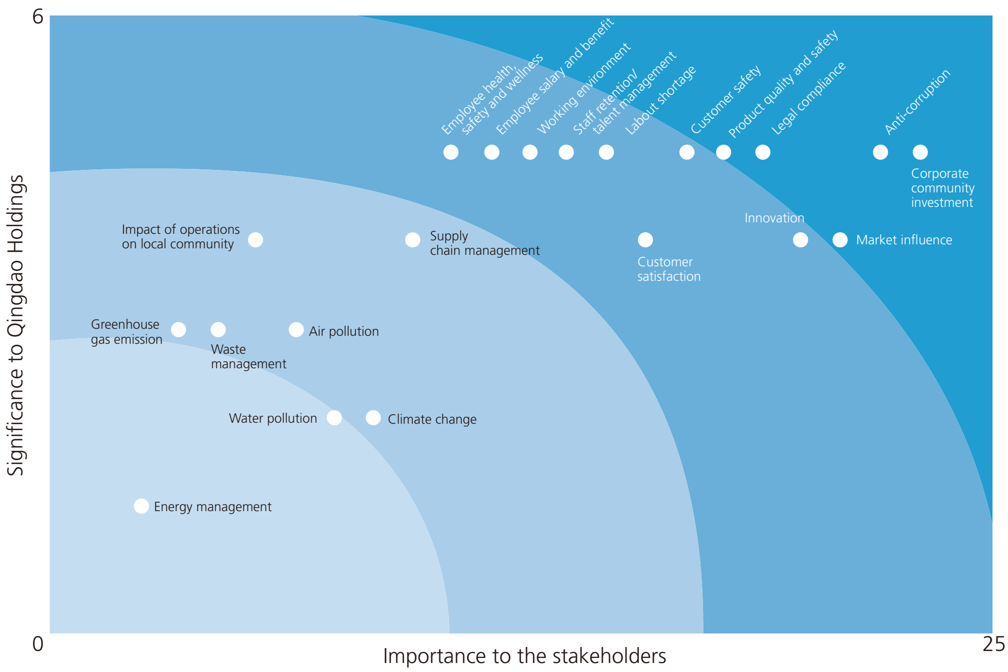
STAKEHOLDER ENGAGEMENT

To deepen collaboration with its stakeholders, including policymakers, regulators, employees, investors, customers, suppliers, and community members, the Group has pursued various engagement approaches to understand their expectations and concerns. Through this ongoing dialogue, the Group can identify potential risks and opportunities related to sustainable development and establish clear and effective strategies for achieving its objectives. The Group has leveraged the insights and ideas gathered from stakeholders during the Reporting Period to inform its ESG objectives and long-term growth plans. By prioritizing stakeholder engagement, the Group can build a culture of trust and mutual respect, which is essential to achieving sustainable development goals. The Group's commitment to stakeholder engagement is reflected in the ESG Report and will remain a cornerstone of its sustainability efforts moving forward.

Stakeholders	Areas of ESG Concerns	Engagement Approaches
Community	• Community development; • Employment opportunities; • Environmental protection; and • Social welfare.	• Corporate website; • Community service activities; • Media enquiry; and • Press releases and announcements.
Customers	• Product safety and service quality; • Commercial credibility; • Consumer data protection; and • Operational compliance.	• Brochures and leaflets; • Customer service hotline; • Comments and complaint channels; • Press releases and multimedia.
Employees	• Rights and benefits of employees; • Training and development; • Working environment and occupational safety; and • Equal opportunities.	• Regular meetings and team briefings; • Employee trainings; • Performance appraisals; • Notices and circulars; and • Emails and other electronic communications.
Investors and Shareholders	• Business strategies and performances; • Effective corporate governance; • Sustainable profitability; and • Investment returns.	• Annual general meeting and notices; • Financial statements, reports and announcements; • Corporate website; • Investors briefings; and • Press releases.
Suppliers and Business Partners	• Payment schedule; • Demand stability; • Operational compliance; and • Quality services and products.	• Contracts and agreements; • Business meetings, supplier conferences and interviews; • Quotations and tendering process; and • Supplier appraisal, assessment and evaluation.
Government and regulatory authorities	• Compliance with the Listing Rules; • Timely and accurate announcement; • Tax payment as required; and • Disclosure of information and submission of materials.	• Interaction and meetings; • Training and seminars; • Financial statements, reports and announcements; and • Annual reviewal process.

MATERIALITY ASSESSMENT

Materiality analysis plays a crucial role in the Group's ESG strategy by identifying and prioritizing ESG risks and opportunities that could have the greatest impact on its long-term financial performance, reputation, and ability to create value. The process involves assessing the significance of ESG issues based on two main factors: the potential impact of the issue on the Group and its stakeholders, and the level of stakeholder concern about the issue. Through engagement with a range of internal and external stakeholders, the Group has identified ESG issues that have a potential or actual impact on its sustainable development and addressed stakeholders' main concerns.



STAKEHOLDER FEEDBACK

The Group welcomes stakeholders' comments and feedbacks regarding its approach and performance on ESG aspects as they are valuable to its continuous improvement and sustainability. If you have any questions, suggestions and recommendations to the Group, please send them to:

Address: Unit No. 8, 26th Floor, Tower 1 Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong

Email: info@qingdaohi.com

ENVIRONMENTAL PERFORMANCE

The Group is principally engaged in key business areas such as investment property leasing, loan financing, and the distribution of digital Chinese calligraphy educational equipment. While the activities of the Group's businesses were mainly conducted indoor, minimal environmental impact was caused and the Group did not contribute to air (dust and residues), water and noise pollution during the Reporting Period.

Emissions Policy

To seek long-term sustainability, the Group is committed to protecting the environment by proactively raising the environmental awareness of its employees and managing its operations at all levels in a sustainable manner. Environmental policies and processes were established to ensure efficient use of energy and natural resources to minimise environmental impact and reduce emissions and cost. The Group strictly complied with all material aspects of applicable environment protection laws and regulations in the PRC, including but not limited to the following:

- The Environmental Protection Law of the PRC;
- The Energy Conservation Law of the PRC;
- Law of the PRC on the Prevention and Control of Water Pollution;
- Law of the PRC on the Prevention and Control of Pollution from Environmental Noise;
- Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste.

Emissions Target

To join the global efforts in combating climate change, the Group formulated a series of environmental targets that aim to reduce its operational impact on the environment. The Group's progress in achieving these environmental targets will be communicated and evaluated by the Board on an annual basis, and the disclosed targets may be revised to reflect operational changes. The Group shall consider establishing emissions related targets in the future upon which emissions management is considered to be a material topic.

Carbon Footprint – Greenhouse Gas Emissions

Carbon footprint is defined as the total amount of direct and indirect emissions of greenhouse gas ("GHG") expressed in terms of equivalent amount of carbon dioxide ("CO_2-e") emission. During the Reporting Period, the total operation area, comprising the Group's headquarters, offices and factory, was 5,506.01 square metres ("m^2") (2021: 4,308.87 m^2) and was accounted for 100% of its GHG emissions.

The total net GHG emissions generated by the Group was 116.05 tonnes of carbon dioxide equivalent ("tCO_2-e") (mainly carbon dioxide, methane and nitrous oxide) (2021: 123.21 tCO_2-e), and the emission intensity was decreased by approximately 26.3% year-over-year to 0.021 tCO_2-e/m^2 (2021: 0.029 tCO_2-e/m^2). The Group has made great efforts in controlling its emissions as well as its consumption of resources. Its energy conservation practices included deploying energy efficient lightings, switching off idle lightings, computers and electrical appliances and equipment, monitoring water consumption, using digital technology and recycled paper, encouraging the use of public transport, and using tele or video conferencing as an alternative to business travel.

Scope	Sources of GHG emissions	2022	2021	2020
			GHG* emissions (in tCO_2-e)	
1	Mobile – Gasoline	**10.52**	9.98	10.29
2	Purchased electricity	**91.06**	84.24	76.30
3	Disposal of paper waste	**13.94**	28.59	14.87
	Fresh water processing	**0.36**	0.27	0.28
	Sewage water processing	**0.17**	0.14	0.11
	Total GHG* emissions	**116.05**	123.21	101.85
	Carbon Emission intensity per m^2	**0.021**	0.029	0.024

* The GHG is calculated according to the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" jointly published by Environmental Protection Department and Electrical and Mechanical Services Department.

Air emissions

Air emissions are generated by employees using gasoline and diesel-powered motor vehicles for commuting and transportation, which can lead to environmental air pollution. These vehicles emit air pollutants during the combustion of fuel in their engines. To minimize the Group's impact on air quality, the Group will promote the use of public transportation among employees as much as possible. By encouraging the use of more sustainable modes of transportation, the Group aims to reduce its overall carbon footprint and contribute to the preservation of the environment.

Types of Pollutants	2022	2021	2020
	Emission Data (kilogram) ("kg")		
Nitrogen Oxides (NO_x)	**2.81**	2.86	2.40
Sulphur Dioxide (SO_2)	**0.05**	0.05	0.05
Particulate Matter	**0.21**	0.21	0.18

Reducing Hazardous and Non-hazardous Waste

During the Reporting Period, the operating activities of the Group did not produce any hazardous waste to the environment. Paper, printed matters and stationery waste were one of the non-hazardous wastes generated by the Group. The Group has reinforced several paper reduction initiatives including duplex printing, the use of recycled papers, and electronic and online technology. On the other hand, municipal solid waste was another non-hazardous waste generated by the employees during work. It was properly classified according to their recycling nature and collected for recycling and disposal.

Promoting Sustainable Use of Resources

The Group encouraged efficient use of resources and set out targets for energy-saving and emissions reduction purposes by proactively raising the environmental awareness of employees. During the Reporting Period, the primary resources consumed by the Group were electricity, gasoline, diesel, water, paper and packaging materials.

Fossil Fuel Consumption – Gasoline and Diesel

The air emission of motor vehicles may affect the people and neighbouring communities through its environmental impact. The Group consumed 3,708.32 litre ("l") of gasoline and 181.48 l of diesel which constituted to 9.1% of the Group's total carbon footprint. Regular vehicle maintenance was conducted to ensure optimal vehicle performance and fuel efficiency.

Energy Consumption – Electricity

The total electricity consumption was 112,572.20 kilowatt-hour ("kWh") and constituted to 78.5% of the Group's total carbon footprint. It was attributed to the electricity usage of lightings, air-conditioning, and electrical appliances and equipment. The Group's energy saving practices also include the use of window blinds in the office for heat insulation during summer season. The Group will continue to monitor its performance in the conservation of energy related resources.

Water Consumption

During the Reporting Period, the Group did not encounter any issue in sourcing water that was fit for purpose. The total freshwater consumption was 830.00 cubic metres ("m^3"). The water consumption of the Group's headquarters in Hong Kong was not available for disclosure as it was included in the property management fee. Besides, the amount of water used was insignificant. Water conservative measures was implemented to promote water efficiency and save this precious natural resource on earth.

Paper and Printed Matters Consumption

The total paper consumption constituted to 12.0% of the Group's total carbon footprint, a total of 2,904.01 kg of paper was used by administration, marketing, and report publication purposes. Reducing the consumption of paper in its offices has been one of the environmental objectives of the Group, all employees were actively reusing and recycling papers to reduce waste, and using email and media to communicate.

Packaging Material Used for Finished Products

The Group utilized a range of packaging materials, including plastic wrapping, stretch films, foam board, and adhesive type, to package finished calligraphy educational equipment for protection and transportation. In total, approximately 33,509.75 kg of packaging materials were used during the Reporting Period. The Group recognizes the environmental impact of its packaging practices and is committed to exploring innovative solutions to reduce its consumption of packaging materials. To achieve this, the Group actively solicits feedback from employees and suppliers, conducts research, and engages in discussions. The Group's goal is to minimize its environmental impact while maintaining product protection and transportation efficiency. Additionally, the following table provides a summary of the Group's resource consumption:

Scope	Sources of GHG emissions	2022 Consumption	2022 Intensity	2021 Consumption	2021 Intensity	2020 Consumption	2020 Intensity
1	Mobile – Gasoline & diesel	**3,889.80 l**	**0.09 tCO_2-e per capita**	3,701.97 l	0.08 tCO_2-e per capita	3,808.97 l	0.08 tCO_2-e per capita
2	Purchased electricity	**112,572.20 kWh**	**20.45 kWh/m²**	104,154.00 kWh	24.17 kWh/m²	94,200.00 kWh	21.86 kWh/m²
3	Disposal of paper waste	**2,904.01 kg**	**0.12 tCO_2-e per capita**	5,955.66 kg	0.22 tCO_2-e per capita	3,098.09 kg	0.12 tCO_2-e per capita
	Water processing	**830.00 m³**	**0.004 tCO_2-e per capita**	652.67 m³	0.003 tCO_2-e per capita	653.00 m³	0.003 tCO_2-e per capita
	Packaging Materials	**33,509.75 kg**	**0.59 kg/ RMB'000 revenue^**	2,184.25 kg	0.032 kg/ RMB'000 revenue^	2,812.45 kg	0.042 kg/ RMB'000 revenue^

^ During the Reporting Period, the total revenue of the Group was RMB56,601,000 (2021: RMB69,300,000, 2020: RMB66,500,000).

The Environment and Natural Resources

Protecting the Environment and Natural Resources

The Group is committed to controlling the consumption of resources as well as documenting its emissions. As the expectations on corporate responsibility increase, the Group promotes sustainability as one of its business approaches to creating long-term value to its stakeholders. The Group complied with the relevant environmental laws and regulations in Hong Kong and the PRC, while its operations were mainly taken place indoor, minimal environmental impact was caused by office-based work.

Tackling Climate Change

The Group is committed to mitigating climate-related risk by conducting an assessment to identify potential risks and impacts associated with climate change. The steps taken by the Group to identify, evaluate and manage significant risks (including significant climate-related issues) are summarised as follows:

Identify climate-related hazards: the Group has assessed the physical and transitional risks they face from climate-related hazards, such as extreme weather events, sea level rise, and policy changes related to climate mitigation and adaptation.

Evaluate exposure and vulnerability: the Group evaluated its exposure and vulnerability to these hazards, taking into account factors such as its supply chain, operations, assets, and financial performance.

Analyse potential impacts: the Group analysed the potential impacts of climate change on its operations, financial performance, and reputation. Assessing the impact of physical damage from extreme weather events, changes in resource availability, and changes in customer demand.

Develop risk management strategies: The Group has developed strategies to manage and mitigate its climate-related risks by reducing greenhouse gas emissions, diversifying its supply chains, engaging with stakeholders to raise awareness of climate risks and encourage action to mitigate them, and incorporate climate risk into its decision-making processes.

Monitor and review: The Group has concluded that climate related risks do not have a material impact on its business. Nevertheless, the Group regularly monitors and reviews its risk management strategies to ensure they remain effective in the face of changing climate risks.

EMPLOYMENT AND LABOUR PRACTICES

Employment Policy

To ensure its success and future growth, the Group recognizes the importance of human resources and endeavours to provide a stimulating and harmonious work environment for its employees. The Group's employee handbook outlines the Group's employment policy, which adheres to general principles that prioritize fair compensation and compliance with employment regulations, such as the Employment Ordinance and the Minimum Wage Ordinance in Hong Kong and related employment regulations in the PRC.

To maintain a sustainable and productive workforce, the Group provides equal opportunities to its employees in terms of recruitment, training and development, job advancement, and remuneration and benefits. The Group's remuneration policies are designed to attract, retain, and motivate employees, thereby ensuring a fair, productive, and sustainable workforce. The Group's human resource management objectives include rewarding and recognizing employees through an annual performance appraisal system based on their job performance, knowledge, and experience.

As at 31 December 2022, the total workforce of the Group was 119 (2021: 129). The employee composition of the Group was summarised in the following table.

Employee Structure		2022	2021	2020
Total number of employees		**119**	129	122
By gender	Male	**64.7%**	66.7%	66.4%
	Female	**35.3%**	33.3%	33.6%
By age	18–25	**14.3%**	16.3%	21.3%
	26–35	**46.2%**	41.8%	41.0%
	36–45	**20.2%**	29.5%	27.9%
	46–55	**14.3%**	9.3%	6.5%
	56 or above	**5.0%**	3.1%	3.3%
By employee category	Directors and senior management	**6.7%**	6.2%	13.9%
	Middle Management	**26.9%**	18.6%	12.3%
	General employee	**66.4%**	75.2%	73.8%
By geographical region	Hong Kong	**4.2%**	3.9%	4.1%
	The PRC	**95.8%**	96.1%	95.9%

The Group is highly focused on managing employee turnover and is dedicated to retaining its top talent to create a more stable and productive work environment. To tackle employee turnover, the Group has implemented a range of strategies, including enhancing employee engagement, providing superior training and development opportunities, offering highly competitive compensation and benefits packages, and ensuring seamless communication between management and employees. These measures are designed to boost employee satisfaction and create a positive work culture that motivates employees to stay with the company long-term. The Group is committed to maintaining a highly skilled and dedicated workforce that can drive the company's long-term success.

Employee Turnover Rate		2022
By gender	Male	**33.1%**
	Female	**21.2%**
By age	18–25	**52.6%**
	26–35	**7.6%**
	36–45	**52.2%**
	46–55	**29.6%**
	56 or above	**0.0%**
By employee category	Directors and senior management	**0.0%**
	Middle management	**50.0%**
	General employee	**25.0%**

Occupational Health and Safety Policy

The Group values its employees and is committed to providing a safe and healthy work environment. The Group has developed an occupational health and safety policy that prioritizes employee well-being based on the needs of the workplace. Maintaining the health and safety of employees is an important material aspect of the Group, and the Group ensures compliance with relevant occupational health and safety regulations. The Group periodically provides its employees with updated policies, training and instructions on health and safety precautions, as well as good workplace practices that are tailored to the nature of their work and working environment. The Group also recognizes the importance of work-life balance and offers flexible working arrangements to support its employees' well-being. Through these efforts, the Group aims to foster a positive work environment that promotes employee satisfaction and productivity.

During the Reporting Period, the COVID-19 pandemic presented significant challenges for the Group and its employees. To prevent the spread of the virus, the Group strictly complied with virus prevention regulations required by local governments and implemented stringent infection prevention measures to protect its employees. The Group provided surgical masks and alcohol-based hand rub in its offices, as well as posted posters and notices in the workplace to provide relevant health and safety information to employees. The Group also arranged for some employees to work from home and conduct business meetings online to minimize the spread of COVID-19. Additionally, the Group advised employees to wear masks, follow social distancing rules, and avoid crowded places when meeting people or working outside in their local community. The Group established a response mechanism to minimize the impact of COVID-19 infections on other employees, neighbours, and members of the public. Throughout the Reporting Period, the Group remained fully compliant with all relevant health and safety regulations, and no non-compliance incidents were reported.

Occupational Health and Safety Data	2022	2021	2020
Number of work injury cases	**0**	0	0
Number of work-related fatalities	**0**	0	0
Lost days due to work injury	**0**	0	0
Work injury rate	**0**	0	0

Human Resources Development and Training

The Group is committed to creating a conducive work environment that fosters employee growth and development. To achieve this, the Group provides its employees with a range of learning opportunities that aim to improve their knowledge and skills. These learning opportunities include both external professional training and on-the-job training, which is designed to enhance employees' job-related competencies.

In line with its mission to promote lifelong learning, the Group also provides an educational grant for employees who wish to pursue further studies or acquire new skills. This grant is aimed at supporting employees' career development paths and enabling them to keep up with emerging technologies and industry trends.

To track the effectiveness of its training programs, the Group maintains records of the training hours completed by employees in each category. The data presented in the following table reflects the number of training hours completed by employees in each category, providing insight into the Group's commitment to employee development and the success of its training initiatives.

Training Hours	2022	2021	2020
Total (in hours)	**281**	181	157
Average (per employee)	**2.4**	1.4	1.3
By gender (Average training hours per employee)			
Male	**2.5**	N/A*	N/A*
Female	**2.0**	N/A*	N/A*
By employee category (Average training hours per employee)			
Directors and senior management	**3.5**	2.0	5.8
Middle management	**6.6**	5.7	3.9
General employee	**0.5**	0.3	0

* Data not available

Labour Practices and Compliance

During the Reporting Period, the Group remained committed to complying with applicable laws and regulations on employment, child and forced labour practices. To communicate its commitment to its employees and protect them from discrimination, the Group's employee handbook clearly outlines ground rules and regulations concerning employment and labour standards, remuneration and benefits, leave and holidays, training and development, business conduct and ethics, and occupational health and safety.

Recruitment of employees is strictly guided by the procedures set out by the Group's human resource department to ensure that suitable candidates are recruited in accordance with relevant laws and job requirements. Throughout the Reporting Period, the Group remained compliant with all applicable laws and regulations that have significant impacts on the Group, including those related to compensation and dismissal, recruitment or promotion, working hours, rest periods, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.

OPERATING PRACTICES

Supply Chain Management

The Group places great emphasis on its supply chain management system as it plays a critical role in ensuring that products and services are procured in an honest, competitive, fair, and transparent manner. The Group follows a strict selection process when choosing suppliers based on tender terms such as quality, price, and delivery date, as well as the suppliers' reputation and financial reliability. The Quality Inspection Department is responsible for maintaining a record of qualified suppliers, with suppliers of important materials with a long-standing relationship required to provide sufficient quality certification documents. New suppliers must undergo sample testing and batch trials before being considered for inclusion on the approved supplier list, while general material suppliers must pass sample verification and small batch trials to maintain their qualification status.

The Purchasing Department of the Group periodically evaluates the auxiliary materials purchased based on supply inspection records. Suppliers found to have quality issues are given two corrective measures handling sheets to make improvements, and their qualification for supply is cancelled if there is no significant improvement. To maintain the quality of supplies, the Purchasing Department conducts an annual re-evaluation of qualified suppliers, taking into consideration factors such as quality and delivery time. If a supplier's evaluation score falls below a certain threshold, their qualification for supply may be cancelled. These measures ensure that the Group's supply chain management system operates with integrity, and that suppliers are held accountable for the quality of products and services they provide.

Supplier Engagement

The Group understands that strategic suppliers who offer reliable, high-quality, environmentally friendly, safe, and technologically advanced products are critical to meet its growing needs and those of its customers. To ensure product and service quality, and promote environmentally preferable products and services, suppliers are selected based on prescribed criteria.

The Group updates its approved supplier list periodically and communicates it to employees annually. This helps to ensure that employees have access to the most up-to-date supplier information and are able to make informed decisions when selecting suppliers for their procurement needs. By keeping employees informed and up-to-date, the Group is able to maintain a consistent level of quality in its supply chain management system. During the Reporting Period, the Group had 60 products and services suppliers (2021: 48) on the approved suppliers list in Hong Kong and the PRC, which was reviewed periodically and updated for employees.

Product Responsibility and Quality Assurance Process

The Group is committed to providing high-quality products and responsible services to its customers. To achieve this, the Group regularly monitors, reviews, and updates its policies and procedures for product quality improvement, customer due diligence, record-keeping, customer protection, and employee training. The Group has also redefined operations and service flow to improve customer experience and ensure professional and attentive services. Customers can reach out to the Group's customer service hotline for enquiries and feedback. During the Reporting Period, there were no significant complaints in product and service quality in Hong Kong and the PRC, and the Group remained compliant with all the applicable laws and regulations that have significant impacts on the Group in relation to product responsibility matters. The Group remains dedicated to maintaining high product standards and service quality to meet the evolving needs of its customers.

Consumer Data Protection and Privacy Policy

As a responsible enterprise and licensed money lender, the Group adheres to the Personal Data (Privacy) Ordinance to safeguard all personal data collected from customers, employees, and suppliers. The Group's code of conduct outlines the policies and procedures for data protection and privacy, and all personnel handling personal data are trained and aware of the policy. The Group's computer systems and servers are password-protected, and employees are reminded of their responsibility to maintain the confidentiality of all personal data, trade secrets, and proprietary information.

Protecting Intellectual Property Rights

The Group recognizes the importance of its trademarks and domain names in building its brand and corporate image and has registered them accordingly. The Group complies with regulations on intellectual property ("IP") rights and takes reasonable measures to prevent any infringement of its own IP rights or those of third parties. During the Reporting Period, there were no significant infringements of the Group's IP rights.

Anti-corruption and Anti-money Laundering Policies

The Group is committed to conducting business in an honest and transparent manner and complying with all applicable rules and regulations regarding corruption, money laundering, extortion, fraudulent activities, and conflict of interest. Appropriate anti-corruption and anti-money laundering training and promotional materials are available to directors and employees of the Group. As a licensed money lender, the Group has developed a comprehensive credit approval policy and process in accordance with the Money Lenders Ordinance ("MLO") to prevent and detect money laundering. All directors and employees must adhere to the Group's ethical considerations when engaged in business activities. During the Reporting Period, the Group was not aware of any non-compliance with relevant laws and regulations that would significantly impact the Group or any corruption litigation against the Group or its employees.

Conflict of Interest Policy and Preventive Measures

The Group's directors and employees are required to avoid conflicts between personal and financial interests and their professional duties. Any situation where directors or employees may gain financially or personally by exercising authority, influencing decisions, or accessing valuable information is strictly prohibited. To further encourage employees to report potential or actual incidents of malpractice or misconduct in relation to corruption and money laundering issues, a whistleblowing policy is in place and promoted within the Group across the operations to prevent the occurrence of situations in which donations and sponsorships are used to conceal the act of bribery or money laundering. The Group's code of conduct includes a whistleblowing procedure that requires employees to report any suspected fraud, irregularities, conflict of interest, or misconduct promptly. The Group provides training and reading materials on the prevention and detection of fraudulent activities to ensure that its employees are aware of the ethical requirements.

COMMUNITY INVESTMENT

Community Engagement

As a socially responsible organization, the Group recognizes the importance of engaging with its stakeholders to minimize any potential environmental and social impact on the community. The Group is committed to exploring opportunities to support charitable or community events financially and encourage employees to take part in charitable activities that create a positive impact on the community. Through these efforts, the Group aims to give back to the community and demonstrate its commitment to responsible business practices.

Key Performance Indexes Reference Table:

Reference KPIs of the ESG Reporting Guide		Corresponding KPIs in the sections of the Report
A. Environment		
A1: Emissions	A1.1: Emissions Data A1.2: Greenhouse gas emissions A1.3: Total hazardous waste A1.4: Total non-hazardous waste A1.5: Measures to mitigate emissions A1.6: How hazardous and non-hazardous waste are handled	– Emissions Policy – Emissions Target – Carbon Footprint – Greenhouse Gas Emissions – Air Emissions – Reducing Hazardous and Non-hazardous Waste
A2: Use of Resources	A2.1: Direct and/or indirect energy consumption A2.2: Water consumption A2.3: Energy use efficiency A2.4: Issue in sourcing water A2.5: Total packaging materials used	– Promoting Sustainable Use of Resources
A3: The Environment and Natural Resources	A3.1: Significant impacts of activities on the environment and natural resources	– Emissions Policy – Promoting Sustainable Use of Resources Protecting the Environment and Natural Resources
A4: Climate Change	A4.1: Significant climate-related issues	– Tackling Climate Change

Reference KPIs of the ESG Reporting Guide		Corresponding KPIs in the sections of the Report
B. Social		
Employment and Labour Practices		
B1: Employment	B1: Policies and compliance	– Employment Policy – Labour Practices and Compliance
B2: Health and Safety	B2: Policies and compliance	– Occupational Health and Safety Policy
B3: Development and Training	B3: Policies on improving employees' knowledge and skills	– Human Resources Development and Training
B4: Labour Standards	B4: Policies and compliance	– Employment Policy – Labour Practices and Compliance
Operating Practices		
B5: Supply Chain Management	B5: Policies on managing environmental and social risks of the supply chain	– Supply Chain Management – Suppliers Engagement
B6: Product Responsibility	B6: Percentage of total products sold subject to recalls	– Product Responsibility and Quality Assurance Process – Consumer Data Protection and Privacy Policy – Protecting Intellectual Property Rights
B7: Anti-corruption	B7: Legal cases regarding corrupt practices	– Anti-corruption and Anti-money Laundering Policies – Conflict of Interest Policy and Preventive Measures
Community Investment		
B8: Community Investment	B8: Policies on community engagement	– Community Engagement

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Qingdao Holdings International Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Qingdao Holdings International Limited (the "Company") and its subsidiaries (the "Group") set out on pages 66 to 151, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties	
As at 31 December 2022, the Group's investment properties amounted to RMB460,875,000 and represented 42% of the Group's total assets. As disclosed in note 2.4 and note 3 to the consolidated financial statements, the Group's investment properties were stated at fair values based on valuations carried out by an independent and professionally qualified valuer (the "Valuer") engaged by management. The valuations of the investment properties were dependent on certain significant unobservable inputs, including the term yield, reversionary yield, reversionary rents and adjusted market price. Management's assessment on the fair value of investment properties was significant to the audit because this process required significant judgements and estimates. We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, along with the judgements involved in determining the inputs used in the valuation. Related disclosures are included in note 2.4, note 3 and note 13 to the consolidated financial statements.	Our procedures in relation to valuation of the investment properties included: • Obtaining an understanding of management controls over the valuation of investment properties; • Evaluating the competence, capabilities and objectivity of the Valuer engaged by management; • Assessing the scope of the valuations, significant assumptions and key inputs in the valuation by involving our internal valuation specialists to assist us in checking the source data and methodology used in the valuation; and • Assessing the adequacy of the disclosures of the valuations of investment properties in the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of an amount due from a joint venture	
As at 31 December 2022, the carrying value of an amount due from a joint venture before impairment provision was RMB198,606,000 which represented a loan due from a joint venture of the Group. Out of the total balance due from a joint venture, principal amount of RMB191,600,000 and interest amount of RMB7,006,000 was overdue by 31 December 2022. Management has engaged a Valuer to carry out the valuation of collateral and the impairment testing of the loan. In estimating the impairment provision of the loan, key assumptions used by management included the recovery rate and fair value of collateral. These were all subject to the estimates and judgements of management. Management of the Group determined that the impairment of the loan amounted to RMB43,694,000 as at 31 December 2022. We identified the impairment assessment of an amount due from a joint venture as a key audit matter due to the complexity and significant judgements involved in management's assessment process. Related disclosures are included in note 2.4, note 3 and note 33 to the consolidated financial statements.	Our procedures in relation to the impairment assessment of the loan included: • Obtaining an understanding of management controls over the valuation of the impairment testing of the loan; • Evaluating the competence, capabilities and objectivity of the Valuer engaged by management; • Involving our internal valuation specialists to assist us in evaluating the value of collateral to confirm the rationality of the important parameters of the loan impairment test; • Involving our internal valuation specialists to assist us in reviewing the impairment assessment of the loan; and • Assessing the adequacy of the disclosures of the impairment provision of the loan in the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and other intangible assets	
As at 31 December 2022, the carrying values of goodwill and other intangible assets that have been allocated to the production and sale of education equipment were RMB1,970,000 and RMB12,578,000, respectively. Determining whether goodwill and other intangible assets are impaired required management's estimation of the recoverable amount of the cash-generating unit ("CGU") to which the goodwill and other intangible assets have been allocated. Management has engaged the Valuer to carry out the impairment testing. In estimating the value in use of the CGU, key assumptions used by management included the discount rate, growth rate, budgeted sales and gross margins of the CGU. These were all subject to the estimates and judgements of management. Management of the Group determined that the impairment of the goodwill and other intangible assets were RMB3,240,000 and Nil, respectively as at 31 December 2022. We identified the impairment assessment of goodwill and other intangible assets as a key audit matter due to the complexity and significant judgements involved in management's assessment process. Related disclosures are included in note 2.4, note 3, note 15 and note 16 to the consolidated financial statements.	Our procedures in relation to the impairment assessment of goodwill and other intangible assets included: • Involving our internal valuation specialists to assist us in evaluating the methodologies and discount rate applied in determining the recoverable amount of the CGU to which the goodwill and other intangible assets have been allocated in the impairment testing; • Evaluating the underlying data by analysing growth rates, budgeted sales and gross margins used by the Group in determining the recoverable amount of the CGU to which the goodwill and other intangible assets have been allocated in the impairment testing; • Checking the calculation of the recoverable amount of the CGU to which the goodwill and other intangible assets have been allocated; • Reperforming the sensitivity analysis on the recoverable amount with the assistance from our internal valuation specialists; and • Assessing the adequacy of the disclosures of the impairment assessment of goodwill and other intangible assets in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yee Chung Man.

Ernst & Young
Certified Public Accountants
Hong Kong

30 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	**2022** **RMB'000**	2021 RMB'000
Revenue			
– Goods		**31,094**	41,854
– Rental		**25,507**	27,406
Total revenue	5	**56,601**	69,260
Cost of inventories sold	6	**(18,574)**	(24,572)
(Decrease)/increase in fair value of investment properties	13	**(39,902)**	10,911
Other income	5	**21,967**	24,523
Other gains and losses	5	**4,392**	34
Impairment of financial assets, net	6	**(43,455)**	(1,626)
Impairment of inventories	6	**(35)**	(185)
Impairment of goodwill	6	**(3,240)**	–
Employee benefit expenses	6	**(14,001)**	(14,438)
Other operating expenses		**(18,041)**	(27,838)
Finance costs	7	**(23,680)**	(23,379)
Share of losses of joint ventures	17	**(6,795)**	(187)
(Loss)/profit before tax	6	**(84,763)**	12,503
Income tax credit/(expense)	9	**15,922**	(7,084)
(Loss)/profit for the year		**(68,841)**	5,419
Attributable to:			
Owners of the parent		**(63,531)**	8,362
Non-controlling interests		**(5,310)**	(2,943)
		(68,841)	5,419
(Loss)/Earnings per share attributable to ordinary equity holders of the parent:	11		
– Basic (RMB cents)		**(6.36)**	1.00
– Diluted (RMB cents)		**(6.36)**	1.00

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
(Loss)/profit for the year	**(68,841)**	5,419
Other comprehensive income/(loss)		
Exchange differences:		
Exchange differences arising on translation of foreign operations	**15,743**	(5,457)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**15,743**	(5,457)
Other comprehensive income/(loss) for the year, net of tax	**15,743**	(5,457)
Total comprehensive loss for the year	**(53,098)**	(38)
Attributable to:		
Owners of the parent	**(47,788)**	2,905
Non-controlling interests	**(5,310)**	(2,943)
	(53,098)	(38)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**43,904**	42,158
Investment properties	13	**460,875**	488,523
Right-of-use assets	14	**812**	1,632
Goodwill	15	**1,970**	5,210
Other intangible assets	16	**12,578**	15,012
Investments in joint ventures	17	**3,918**	2,813
Deferred tax assets	25	**5,058**	3,670
Total non-current assets		**529,115**	559,018
CURRENT ASSETS			
Inventories	19	**228,920**	56,487
Trade and other receivables	20	**12,351**	12,793
Amount due from a joint venture	33	**154,912**	173,984
Financial assets at fair value through profit or loss	18	**2,133**	2,390
Cash and cash equivalents	21	**173,011**	232,777
Total current assets		**571,327**	478,431
CURRENT LIABILITIES			
Trade and other payables	22	**187,707**	8,464
Contract liabilities	23	**1,271**	2,891
Interest-bearing bank and other borrowings	24	**42,361**	73,567
Amount due to the ultimate holding company	33	**115,100**	130,100
Income tax payable		**140**	30
Total current liabilities		**346,579**	215,052
NET CURRENT ASSETS		**224,748**	263,379
TOTAL ASSETS LESS CURRENT LIABILITIES		**753,863**	822,397

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Rental deposits from tenants		**445**	605
Interest-bearing bank and other borrowings	24	**7,095**	9,001
Loan from the ultimate holding company	33	**344,000**	344,000
Deferred tax liabilities	25	**3,928**	18,458
Total non-current liabilities		**355,468**	372,064
Net assets		**398,395**	450,333
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	**81,257**	81,257
Other reserves		**256,988**	303,616
		338,245	384,873
Non-controlling interests		**60,150**	65,460
TOTAL EQUITY		**398,395**	450,333

Wang Yimei
Director

Hu Liang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022

	Attributable to owners of the parent						
	Share capital RMB'000 (note 26)	Surplus account* RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2021	39,942	263,144	(3,921)	(77,088)	222,077	66,458	288,535
Profit for the year	–	–	–	8,362	8,362	(2,943)	5,419
Other comprehensive income for the year:							
Exchange differences arising on translation of foreign operations	–	–	(5,457)	–	(5,457)	–	(5,457)
Total comprehensive income/(loss) for the year	–	–	(5,457)	8,362	2,905	(2,943)	(38)
Capital contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	1,945	1,945
Issue of shares	41,315	118,576	–	–	159,891	–	159,891
At 31 December 2021	81,257	381,720**	(9,378)**	(68,726)**	384,873	65,460	450,333
At 1 January 2022							
Loss for the year	81,257	381,720	(9,378)	(68,726)	384,873	65,460	450,333
Other comprehensive income for the year:	–	–	–	(63,531)	(63,531)	(5,310)	(68,841)
Exchange differences arising on translation of foreign operations	–	–	15,743	–	15,743	–	15,743
Total comprehensive income/(loss) for the year	–	–	15,743	(63,531)	(47,788)	(5,310)	(53,098)
Unclaimed dividend	–	1,160***	–	–	1,160	–	1,160
At 31 December 2022	81,257	382,880**	6,365**	(132,257)**	338,245	60,150	398,395

* The surplus account represented the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and other reserve of a subsidiary which was acquired by the Company pursuant to a previous group reorganisation in 1997.

** These reserve accounts comprise the consolidated other reserves of RMB256,988,000 (31 December 2021: RMB303,616,000) in the consolidated statement of financial position.

*** The dividend announced in 2014 has not been claimed for more than 6 years, and the dividend has been recovered this year by the resolution of the Board of Directors.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(84,763)**	12,503
Adjustments for:			
Amortization of intangible assets	*6*	**2,434**	2,434
Impairment losses on financial assets, net	*6*	**43,455**	1,626
Impairment losses on inventories	*6*	**35**	185
Impairment losses on goodwill	*6*	**3,240**	–
Change in fair value of financial assets at fair value through profit or loss	*5*	**465**	60
Depreciation	*6*	**2,333**	2,439
Gain on disposal of items of property, plant and equipment	*6*	**(57)**	–
Unrealised exchange gain		**(2,349)**	(139)
Share of losses of joint ventures	*17*	**6,795**	187
Decrease/(increase) in fair value of investment properties	*13*	**39,902**	(10,911)
Finance costs	*7*	**23,680**	23,379
Interest income	*5*	**(19,807)**	(22,923)
Investment income	*5*	**(953)**	(972)
Operating cash flows before movements in working capital		**14,410**	7,868
Increase in inventories		**(172,468)**	(44,204)
Decrease in contract assets		**–**	4,935
Increase in trade and other receivables		**(1,858)**	(825)
Increase/(decrease) in trade and other payables		**173,193**	(2,905)
Decrease in contract liabilities		**(1,620)**	(2,175)
Decrease in rental deposits from tenants		**(241)**	(2)
Cash generated/(used in) from operations		**11,416**	(37,308)
Interest received		**642**	501
Hong Kong profits tax paid		**26**	(127)
PRC tax paid		**2,423**	(100)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		**14,507**	(37,034)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received		**953**	972
Interest received		**13,309**	23,695
Advance of loan receivables		**(17,500)**	(48,000)
Purchase of items of property, plant and equipment		**(1,857)**	(22,572)
Capital contributed to joint ventures		**(3,000)**	(2,000)
Proceed from disposal of property, plant and equipment		**151**	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(7,944)**	(47,905)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issue of shares		**–**	161,539
Share issue expenses		**–**	(1,648)
Unclaimed dividends refunded		**1,160**	–
New borrowings		**–**	51,435
Principal portion of lease payment		**(848)**	(782)
Interest portion of lease payment		**(46)**	(85)
Repayment of a loan from an intermediate holding company		**–**	(40,896)
Increase in an amount due to an intermediate holding company		**–**	41,794
(Decrease)/increase in an amount due to the ultimate holding company		**(15,000)**	30,000
Repayment of bank borrowings		**(38,260)**	(5,751)
Interest paid		**(23,634)**	(23,294)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES		**(76,628)**	212,312
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(70,065)**	127,373
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**232,777**	108,156
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**10,299**	(2,752)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	*21*	**173,011**	232,777

1 CORPORATE AND GROUP INFORMATION

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business in Hong Kong is located at Unit 8, 26th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong.

The Company's immediate holding company is China Qingdao International (Holdings) Company Limited, an indirect wholly-owned subsidiary of 青島城市建設投資(集團)有限責任公司 (Qingdao City Construction Investment (Group) Limited*) (the ultimate holding company), which is a state-owned enterprise controlled by Qingdao Municipal Government of the People's Republic of China.

The Group is involved in the following principal activities:

(a) Leasing of properties: this segment mainly leases residential, industrial and commercial premises to generate rental income;

(b) Production and sale of education equipment: this segment is engaged in the research and development, production and sale of digital Chinese calligraphy education equipment together with relevant learning and tutorial sessions;

(c) Loan financing: this segment provides loan financing services to individuals or corporate customers. The Group possesses a money lender licence and its money lending business is mainly carried out in Hong Kong;

(d) Consulting service: this segment provides construction project supervision, project cost consulting and bidding consulting services in Mainland China; and

(e) Real estate development: this segment provides real estate development services in Mainland China.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Capital Scope Limited	British Virgin Islands	US$1	100	–	Investment holding
Capital Up Holdings Limited	British Virgin Islands	US$1	100	–	Investment holding
Classic Charter Limited	Hong Kong	HK$50	–	100	Loan financing
Electronics Tomorrow Property Holdings Limited	British Virgin Islands	US$100	–	100	Investment holding
Hong Kong Hanhe Education Company Limited	Hong Kong	HK$1	–	100	Investment holding
Issegon Company Limited	Hong Kong	HK$300,000	–	100	Property investment and leasing of properties

* *The English name is for identification purpose only.*

1 CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Million Good Group Limited	British Virgin Islands	US$100	–	100	Investment holding
Keen Capital Investments Limited	Hong Kong	US$1	100	–	Inactive
Leading Sound Limited	British Virgin Islands	US$1	100	–	Investment holding
Prime Concept Development Limited	Hong Kong	HK$1	100	–	Investment holding
Qingdao Holdings (Hong Kong) Limited	Hong Kong	HK$1	100	–	Investment holding
Royal Asset Investments Limited	Hong Kong	HK$1	–	100	Property investment and leasing of properties
青島啟峰科技服務有限公司*	PRC/Mainland China	HK$30,000,000	–	100	Property investment and leasing of properties
山東啟華教育科技有限公司**	PRC/Mainland China	RMB72,900,000	–	51	Production and sale of education equipment
核建青控開發建設有限公司**	PRC/Mainland China	RMB100,000,000	–	51	Project construction
Great Virtue Global Limited	British Virgin Islands	US$1	100	–	Investment holding
Yangfan (Holdings) Group Limited	Hong Kong	HK$1	–	100	Investment holding
核建青控(山東)投資控股有限公司	PRC/Mainland China	RMB10,000,000	–	100	Real estate development business
蚌埠市淮翼建設發展有限公司	PRC/Mainland China	RMB10,000,000	–	95	Real estate development business
Qingdao Finance International Group Limited	Hong Kong	HK$1	100	–	Investment holding
Qingdao Securities International Limited	Hong Kong	HK$1	–	100	Investment holding

* Registered as a wholly-foreign owned enterprise under PRC law.

** Registered as Sino-foreign equity joint venture enterprises under PRC law.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to *HKFRSs 2018–2020*	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

The nature and impact of the revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 Inventories, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The nature and impact of the revised HKFRSs are applicable to the Group described below: (continued)

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) Annual Improve*ments to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendment that is applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1, 5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[2, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

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

[1] Effective for annual periods beginning on or after 1 January 2023

[2] Effective for annual periods beginning on or after 1 January 2024

[3] No mandatory effective date yet determined but available for adoption

[4] As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

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

[6] An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

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

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

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

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

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

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognize a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

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

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognized directly in the equity of joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

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

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

Business combinations and goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

Leasehold land and buildings	5%
Leasehold improvements	10%
Plant and machinery	10%
Furniture, fixtures and equipment	19% to 32%
Motor vehicles	24%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortized.

Intangible assets (other than goodwill)

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

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

Group as a lessee

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

(a) *Right-of-use assets*

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

Leased properties	3–4 years

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

(b) *Lease liabilities*

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

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

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

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

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

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

Group as a lessor

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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

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

Subsequent measurement

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

Financial assets at amortized cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

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

Debt investments at fair value through other comprehensive income and financial assets at amortized cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, loan from and amount due to the ultimate/an intermediate holding company and interest-bearing bank and other borrowings.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at amortized cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

Inventories includes raw materials, finished goods and properties under development. The carrying value of properties under development comprises the costs of land use rights together with development expenditure. Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

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

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of industrial products

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

Some contracts for the sale of education equipment provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

(i) Rights of return

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

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognized.

Construction consulting income is recognized at a point in time after winning the bid in accordance with the contract.

Real estate development income is recognized upon delivery of the property.

Revenue from other sources

Rental income is recognized on a time proportion basis over the lease terms.

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

Other income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract assets

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

Contract liabilities

A contract liability is recognized when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group performs under the contract.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administrated fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension schemes. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension schemes.

Termination benefits

Termination benefits are recognized at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes restructuring costs involving the payment of termination benefits.

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's Bye-Laws grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

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

The functional currency of certain subsidiaries is Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Property lease classification – Group as lessor

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

Estimation uncertainty

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

Fair values of investment properties

Investment properties are carried in the consolidated statement of financial position at 31 December 2022 at a fair value of RMB460,875,000 (31 December 2021: RMB488,523,000). The fair value was based on valuations on these properties conducted by a firm of independent professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income. Details of the fair value measurements are set out in note 13.

Estimated impairment of goodwill and other intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill and intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the present value of future cash flows expected to arise from the cash-generating unit containing goodwill and other intangible assets using a suitable discount rate, growth rates, budgeted sales and gross margins. Where the actual future cash flows are less than expected, or changes in facts and circumstances result in a downward revision of future cash flows, a material impairment loss may arise. As at 31 December 2022, the carrying amounts of goodwill and other intangible assets were RMB1,970,000 and RMB12,578,000 (31 December 2021: RMB5,210,000 and RMB15,012,000), respectively. Details of the impairment review are disclosed in note 15 and note 16.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates, taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At each reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances which are credit impaired are assessed for ECLs individually.

The provision for ECLs is sensitive to changes in estimates. The information about the ECLs assessment of the Group's trade receivables is disclosed in note 20.

Provision for expected credit losses on amount due from a joint venture

The Group uses a provision matrix to calculate ECLs for amount due from a joint venture. The provision rates are based on three scenarios: pessimistic, base and optimistic. The provision matrix is based on the value of collateral, taking into account the discount rate of collateral sales in the three scenarios mentioned above, to evaluate the default rates. At each reporting date, the value of the collateral is reassessed and changes in the discount rate of collateral sales are considered.

The provision for ECLs is sensitive to changes in estimates. The information about the ECLs assessment of the Group's amount due from a joint venture are disclosed in note 33.

Estimated useful lives of intangible assets

The Group's management determines the estimated useful lives of intangible assets. This estimate is based on the historical experience of the actual useful lives of intangible assets of a similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Actual economic lives may differ from estimated useful lives. If the actual useful lives of intangible assets are less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the amortization charges for the remaining periods.

Leases – Estimating the incremental borrowing rate

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

Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 25 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

(a) Leasing of properties: this segment mainly leases residential, industrial and commercial premises to generate rental income;

(b) Production and sale of education equipment: this segment is engaged in the research and development, production and sale of digital Chinese calligraphy education equipment together with relevant learning and tutorial sessions;

(c) Loan financing: this segment provides loan financing services to individuals or corporate customers. The Group possesses a money lender licence and its money lending business is mainly carried out in Hong Kong;

(d) Consulting service: this segment provides construction project supervision, project cost consulting services and bidding consulting in Mainland China; and

(e) Real estate development: this segment provides real estate development services in Mainland China.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that fair value changes of investment properties, certain other income, certain other gains and losses, certain employee benefit expenses, finance costs, as well as certain other operating expenses are excluded from such measurement.

Segment assets exclude deferred tax assets and cash and cash equivalents, financial assets at fair value through profit or loss, other financial assets, tax recoverable, certain property, plant and equipment, certain other receivables of the corporate offices and assets classified as held for sale.

Segment liabilities exclude certain other payables and accrued charges of the corporate offices as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results

Year ended 31 December 2022

	Segment revenue RMB'000	Segment results RMB'000
Leasing of properties	**25,507**	**(22,676)**
Production and sale of education equipment	**31,094**	**(6,019)**
Consulting service	**–**	**(9,816)**
Loan financing	**–**	**(29)**
Real estate development	**–**	**(1)**
Segment total	**56,601**	**(38,541)**
Decrease in fair value of investment properties		**(39,902)**
Unallocated income		**21,348**
Unallocated expenses		**(27,668)**
Loss before tax		**(84,763)**

Year ended 31 December 2021

	Segment revenue RMB'000	Segment results RMB'000
Leasing of properties	27,406	22,672
Production and sale of education equipment	41,854	(2,109)
Consulting service	–	(5,296)
Loan financing	–	(23)
Real estate development	–	(2)
Segment total	69,260	15,242
Increase in fair value of investment properties		10,911
Unallocated income		24,314
Unallocated expenses		(37,964)
Profit before tax		12,503

4. OPERATING SEGMENT INFORMATION (continued)

Segment assets and liabilities

	Segment assets		Segment liabilities	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
Leasing of properties	**617,150**	665,203	**463,968**	494,098
Production and sale of education equipment	**69,655**	70,926	**13,370**	55,243
Consulting service	**10,326**	8,558	**10,704**	2,874
Loan financing	**–**	–	**27**	12
Real estate development	**213,550**	40,149	**175,091**	900
Segment total	**910,681**	784,836	**663,160**	553,127
Unallocated:				
Cash and cash equivalents	**173,011**	232,777	**–**	–
Others	**16,750**	19,836	**38,887**	33,989
Total	**1,100,442**	1,037,449	**702,047**	587,116

Other segment information

Year ended 31 December 2022

Other segment information	Leasing of properties RMB'000	Production and sale of education equipment RMB'000	Consulting service RMB'000	Loan financing RMB'000	Real estate development RMB'000	Others RMB'000	Total RMB'000
Share of losses of:							
Joint ventures	–	–	(6,795)	–	–	–	(6,795)
Impairment losses recognised in the statement of profit or (loss), net	43,578	3,853	(701)	–	–	–	46,730
Depreciation and amortization	1,255	2,624	862	–	–	26	4,767
Investments in joint ventures	–	–	3,918	–	–	–	3,918
Capital expenditure*	12	1,506	–	–	–	339	1,857

4. OPERATING SEGMENT INFORMATION (continued)

Other segment information (continued)

Year ended 31 December 2021

Other segment information	Leasing of properties RMB'000	Production and sale of education equipment RMB'000	Consulting service RMB'000	Loan financing RMB'000	Real estate development RMB'000	Others RMB'000	Total RMB'000
Share of losses of:							
Joint ventures	–	–	(187)	–	–	–	(187)
Impairment losses recognised in the statement of profit or (loss), net	101	1,157	553	–	–	–	1,811
Depreciation and amortization	1,212	2,791	865	–	–	5	4,873
Investments in joint ventures	–	–	2,813	–	–	–	2,813
Capital expenditure*	9	24,556	102	–	–	905	25,572

* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets including assets from the acquisition of a subsidiary.

Geographical information

(a) Revenue from external customers

	2022 RMB'000	2021 RMB'000
Mainland China	53,638	66,166
Hong Kong	2,963	3,094
	56,601	69,260

(b) Non-current assets

	2022 RMB'000	2021 RMB'000
Mainland China	369,646	405,849
Hong Kong	154,411	149,499
	524,057	555,348

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

Information about a major customer

Revenue of approximately RMB19,240,000 (year ended 31 December 2021: RMB20,711,000) was derived from rental income received from a single customer.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers		
Sale of education equipment	**31,094**	41,854
Revenue from other sources		
Gross rental income from investment property operating leases with fixed payments	**25,507**	27,406
	56,601	69,260

Revenue from contracts with customers

(a) Disaggregated revenue information

Segments **Sale of education equipment**	2022 RMB'000	2021 RMB'000
Geographical markets		
Mainland China	**31,094**	41,854
Timing of revenue recognition		
Goods transferred at a point in time	**31,094**	41,854

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

Segments **Sale of education equipment**	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers		
External customers	**31,094**	41,854

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

	2022 RMB'000	2021 RMB'000
Revenue recognized that was included in contract liabilities at the beginning of the reporting period:		
Sale of education equipment	**2,891**	5,066

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations

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

Sale of education equipment

The performance obligation of the sale of education equipment is satisfied upon delivery of goods and payment in advance is generally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint. As at 31 December 2022 and 31 December 2021, the variable consideration was assessed to be minimal.

An analysis of other income is as follows:

	2022 RMB'000	2021 RMB'000
Other income		
Bank interest income	**642**	501
Investment income from financial assets at fair value through profit or loss	**154**	149
Investment income from other financial assets	**799**	823
Interest from a loan	**19,165**	22,422
Government grant (Note)	**1,095**	590
Gain on disposal of items of property, plant and equipment	**57**	–
Others	**55**	38
	21,967	24,523

An analysis of other gains and losses is as follows:

	2022 RMB'000	2021 RMB'000
Other gains and losses		
Net foreign exchange gain	**4,857**	94
Loss from change in fair value of financial assets at fair value through profit or loss	**(465)**	(60)
	4,392	34
	26,359	24,557

Note: The amount of the government grant represents the incentive subsidies received from the local district authorities in Mainland China for business activities carried out by the Group in the district. There are no unfulfilled conditions related to the grants.

6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	**2022 RMB'000**	2021 RMB'000
Auditor's remuneration		**2,173**	2,090
Depreciation of property, plant and equipment	12	**1,513**	1,440
Depreciation of right-of-use assets	14	**820**	999
Amortization of intangible assets	16	**2,434**	2,434
Impairment losses on financial assets, net	20, 33	**43,455**	1,626
Impairment losses on goodwill	15	**3,240**	–
Impairment losses on inventories	19	**35**	185
Investment income from financial assets at fair value through profit or loss	5	**(154)**	(149)
Gain on disposal of items of property, plant and equipment	5	**(57)**	–
Investment income from other financial assets	5	**(799)**	(823)
Government grant	5	**(1,095)**	(590)
Net foreign exchange gain	5	**(4,857)**	(94)
Loss from change in fair value of financial assets at fair value through profit or loss	5	**465**	60
Expense relating to short-term leases	14	**79**	1,134
Cost of inventories sold		**18,574**	24,572
Directors' fees (note 8(a))	8	**400**	400
Other staff costs:			
– Salaries and other benefits		**12,682**	13,197
– Retirement benefit scheme contributions		**919**	841
Total staff costs		**14,001**	14,438
Gross rental income		**(25,507)**	(27,406)
Less: Direct operating expenses that generate rental income during the year		**270**	238
		(25,237)	(27,168)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 RMB'000	2021 RMB'000
Interest on loan from the ultimate holding company	**21,514**	21,099
Interest on loan from an intermediate holding company	**–**	1,025
Interest on bank loan	**2,120**	1,170
Interest on lease liabilities	**46**	85
	23,680	23,379

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

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

(a) Directors' and chief executive's emoluments

Details of the emoluments paid or payable to the directors of the Company including the chief executive during the year were as follows:

	2022					
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contribution RMB'000	Total remuneration RMB'000
Executive Directors:						
Mr. Gao Yuzhen (note i)	–	–	–	–	–	–
Mr. Yuan Zhi (notes i and ii)	–	–	–	–	–	–
Mr. Hu Liang (note i)	–	–	–	–	–	–
Non-executive Director:						
Mr. Li Shaoran (note i)	–	–	–	–	–	–
Independent non-executive Directors:						
Mr. Yin Tek Shing, Paul	100	–	–	–	–	100
Mr. Wong Tin Kit	100	–	–	–	–	100
Ms. Zhao Meiran	100	–	–	–	–	100
Mr. Li Xue	100	–	–	–	–	100
	400	–	–	–	–	400

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' and chief executive's emoluments (continued)

	2021					
	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contribution RMB'000	Total remuneration RMB'000
Executive Directors:						
Mr. Gao Yuzhen (note i)	–	–	–	–	–	–
Mr. Yuan Zhi (notes i and ii)	–	–	–	–	–	–
Mr. Hu Liang (note i)	–	–	–	–	–	–
Non-executive Director:						
Mr. Li Shaoran (note i)	–	–	–	–	–	–
Independent non-executive Directors:						
Mr. Yin Tek Shing, Paul	100	–	–	–	–	100
Mr. Wong Tin Kit	100	–	–	–	–	100
Ms. Zhao Meiran	100	–	–	–	–	100
Mr. Li Xue	100	–	–	–	–	100
	400	–	–	–	–	400

Notes:

(i) The executive directors and non-executive director are also the directors or employees of the ultimate holding company and they received their emoluments from the ultimate holding company for their services in connection with the management of the affairs of the Company and the Group. There is no reasonable basis to allocate any amount to the Group.

(ii) Mr. Yuan Zhi is also the chief executive of the Company.

The emoluments of the independent non-executive directors shown above were mainly for their services as directors of the Company.

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND HIGHEST PAID INDIVIDUALS (continued)

(b) Highest paid individuals

Of the five individuals with the highest emoluments in the Group, there was no director (31 December 2021: none). The emoluments of the 5 (31 December 2021: 5) individuals were as follows:

	2022 **RMB'000**	2021 RMB'000
Salaries and other benefits	**1,721**	1,623
Retirement benefit scheme contributions	**154**	153
	1,875	1,776

The number of the highest paid individuals whose remuneration fell within the following band is as follows:

	2022 **Number of employees**	2021 Number of employees
Nil to HK$1,000,000	**5**	5

During the current year and prior year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9. INCOME TAX

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% (2021:16.5%) on the estimated assessable profits arising in Hong Kong for the current year and prior year.

9. INCOME TAX (continued)

Mainland China

Under the Law of Mainland China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of Mainland China subsidiaries was 25% for both the current year and prior year.

	2022 RMB'000	2021 RMB'000
Current tax – Hong Kong		
Charge for the year	**132**	90
Underprovision in prior years	**–**	8
Current tax – Mainland China		
Charge for the year	**–**	80
Over provision in prior years	**(8)**	(304)
Deferred (note 25)	**(16,046)**	7,210
Total tax (credit)/charge for the year	**(15,922)**	7,084

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	2022 RMB'000	2021 RMB'000
(Loss)/profit before tax	**(84,763)**	12,503
Tax at the domestic income tax rate of 25% (note)	**(21,191)**	3,126
Losses and profits attributable to joint ventures	**1,699**	46
Expenses not deductible for tax	**5,207**	3,336
Income not subject to tax	**(2,837)**	(897)
Tax losses not recognized	**1**	1
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,507**	1,121
Effect on opening deferred tax of decrease in rates	**–**	990
Underprovision in prior years – Hong Kong profits tax	**–**	8
Overprovision in prior years – Mainland China EIT	**(8)**	(304)
Additional deduction for research and development expenditure	**(300)**	(325)
Others	**–**	(18)
Income tax (credit)/expense for the year	**(15,922)**	7,084

Note: The domestic tax rate which is the Mainland China EIT rate, in the jurisdiction where the operation of the Group is substantially based, is used.

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2022 (31 December 2021: Nil).

11. (LOSS)/EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share attributable to ordinary equity holders of the parent are based on:

	2022	2021
	RMB'000	RMB'000
(Loss)/Earnings		
(Loss)/profit attributable to ordinary equity holders of the parent	**(63,531)**	8,362

	Number of shares	
	2022	2021
Number of shares		
Weighted average number of ordinary shares in issue during the year	**998,553,360**	836,554,537

The Company had no potentially dilutive ordinary shares in issue for both years.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022							
At 1 January 2022							
Cost	23,045	254	109	915	327	25,445	50,095
Accumulated depreciation and impairment	(6,913)	(145)	(46)	(670)	(163)	–	(7,937)
Net carrying amount	16,132	109	63	245	164	25,445	42,158
At 1 January 2022 net of accumulated depreciation and impairment	16,132	109	63	245	164	25,445	42,158
Additions	–	–	7	429	–	1,421	1,857
Disposals	–	–	–	–	(94)	–	(94)
Depreciation provided during the year	(1,213)	(27)	(13)	(205)	(55)	–	(1,513)
Transfers	25,630	–	–	1,236	–	(26,866)	–
Exchange realignment	1,483	11	–	2	–	–	1,496
Cost at 31 December 2022, net of accumulated depreciation and impairment	42,032	93	57	1,707	15	–	43,904
At 31 December 2022							
Cost	50,864	278	116	2,587	229	–	54,074
Accumulated depreciation and impairment	(8,832)	(185)	(59)	(880)	(214)	–	(10,170)
Net carrying amount	42,032	93	57	1,707	15	–	43,904

The net carrying amounts with respect to leasehold land as at 31 December 2022 and 31 December 2021 were RMB15,512,161 and RMB15,256,084, respectively, and the total depreciation with respect to leasehold land for the year ended 31 December 2022 was RMB1,147,283 (31 December 2021: RMB1,108,813).

At 31 December 2022, the Group's property, plant and equipment with a net carrying amount of approximately RMB25,630,000 (31 December 2021: RMB25,445,000) were pledged to secure general banking facilities granted to the Group (note 24).

12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021							
At 1 January 2021							
Cost	23,788	262	107	890	229	–	25,276
Accumulated depreciation and impairment	(5,947)	(123)	(30)	(498)	(105)	–	(6,703)
Net carrying amount	17,841	139	77	392	124	–	18,573
At 1 January 2021 net of accumulated depreciation and impairment	17,841	139	77	392	124	–	18,573
Additions	–	–	2	27	98	25,445	25,572
Depreciation provided during the year	(1,172)	(26)	(16)	(168)	(58)	–	(1,440)
Exchange realignment	(537)	(4)	–	(6)	–	–	(547)
Cost at 31 December 2021, net of accumulated depreciation and impairment	16,132	109	63	245	164	25,445	42,158
At 31 December 2021							
Cost	23,045	254	109	915	327	25,445	50,095
Accumulated depreciation and impairment	(6,913)	(145)	(46)	(670)	(163)	–	(7,937)
Net carrying amount	16,132	109	63	245	164	25,445	42,158

13. INVESTMENT PROPERTIES

	Investment properties Total RMB'000
FAIR VALUE	
At 1 January 2021	481,857
Increase in fair value recognized in profit or loss	10,911
Exchange realignment	(4,245)
At 31 December 2021	488,523
Decrease in fair value recognized in profit or loss	(39,902)
Exchange realignment	12,254
At 31 December 2022	460,875

The Group's investment properties consist of three properties in Hong Kong and one property and 136 car parks in Mainland China. The Group's investment properties were revalued on 31 December 2022 based on valuations performed by Roma Appraisals Limited, an independent professionally qualified valuer. The Group's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting. Fluctuations in fair value of investment properties are discussed semi-annually among the board of directors of the Company.

The investment properties are leased to related parties and third parties under operating leases, further summary details of which are included in note 14 and note 33(iii) to the financial statements.

At 31 December 2022, the Group's investment properties with a carrying value of RMB136,675,000 (31 December 2021: RMB132,323,000) were pledged to secure general banking facilities granted to the Group (note 31).

* *The English name is for identification only.*

13. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

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

	Fair value measurement as at 31 December 2022 using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Recurring fair value measurement for:				
Residential properties in Hong Kong	**–**	**–**	**10,184**	**10,184**
Industrial and commercial properties in Hong Kong	**–**	**–**	**82,630**	**82,630**
Commercial properties in Hong Kong	**–**	**–**	**43,861**	**43,861**
Commercial properties in Mainland China	**–**	**–**	**297,000**	**297,000**
Car parks in Mainland China	**–**	**–**	**27,200**	**27,200**
	–	**–**	**460,875**	**460,875**

	Fair value measurement as at 31 December 2021 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Residential properties in Hong Kong	–	–	10,442	10,442
Industrial and commercial properties in Hong Kong	–	–	79,215	79,215
Commercial properties in Hong Kong	–	–	42,666	42,666
Commercial properties in Mainland China	–	–	329,000	329,000
Car parks in Mainland China	–	–	27,200	27,200
	–	–	488,523	488,523

During the current year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2021:Nil).

13. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

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

	Residential properties in Hong Kong RMB'000	Industrial and commercial properties in Hong Kong RMB'000	Commercial properties in Hong Kong RMB'000	Commercial properties in Mainland China RMB'000	Car parks in Mainland China RMB'000	Total RMB'000
FAIR VALUE						
At 1 January 2021	10,358	80,926	43,873	319,500	27,200	481,857
Increase in fair value recognized in profit or loss	166	830	415	9,500	–	10,911
Exchange realignment	(82)	(2,541)	(1,622)	–	–	(4,245)
At 31 December 2021	10,442	79,215	42,666	329,000	27,200	488,523
Decrease in fair value recognized in profit or loss	(945)	(3,951)	(3,006)	(32,000)	–	(39,902)
Exchange realignment	687	7,366	4,201	–	–	12,254
At 31 December 2022	10,184	82,630	43,861	297,000	27,200	460,875

13. INVESTMENT PROPERTIES (continued)

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

	Valuation techniques	Significant unobservable inputs	Range or weighted average	
			2022	2021
Residential properties in Hong Kong	Income capitalisation approach	Term yield	**2.40%**	2.35%
		Reversionary yield	**2.45%**	2.40%
		Reversionary rent per sq. foot	**HKD40**	HKD40
Industrial and commercial properties in Hong Kong	Income capitalisation approach	Term yield	**3.00%**	2.85%
		Reversionary yield	**3.05%**	2.90%
		Reversionary rent per sq. foot	**HKD14.5**	HKD14.5
Commercial properties in Hong Kong	Income capitalisation approach	Term yield	**2.10%**	2.05%
		Reversionary yield	**2.15%**	2.10%
		Reversionary rent per sq. foot	**HKD56.7**	HKD56.7
Commercial properties in Mainland China	Income capitalisation approach	Term yield	**3.80%**	4.30%
		Reversionary yield	**4.30%**	4.80%
		Reversionary rent per sq. metre	**RMB78–86**	RMB100
Car parks in Mainland China approach	Direct comparison	Adjusted market price per car park	**RMB200,000**	RMB200,000

Under the income capitalisation approach, fair value is estimated taking into account the current rents of the property interests and the reversionary potentials of the tenancies, and the term yield and reversionary yield are then applied respectively to derive the market value of the property. A significant increase (decrease) in the reversionary rent would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the term yield and reversionary yield would result in a significant decrease (increase) in the fair value of the investment properties.

Under the direct comparison approach, fair value is estimated assuming the sale of each of these car parks in its existing state with the benefit of vacant possession. By making reference to sales transactions as available in the relevant market, comparable properties in close proximity have been selected and adjustments have been made to account for the difference in factors such as locations and property size. A significant increase (decrease) in the adjusted market price would result in a significant increase (decrease) in the fair value of the car parks.

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of properties used in its operations. Leases of properties generally have lease terms of 3 years. Other equipment generally has lease terms of 12 months or less and/or are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

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

	Leased properties RMB'000
As at 1 January 2021	2,655
Depreciation charge	(999)
Lease termination	(24)
As at 31 December 2021	1,632
Depreciation charge	(820)
As at 31 December 2022	812

14. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	Lease liabilities RMB'000
As at 1 January 2021	2,571
Lease termination	(24)
Accretion of interest recognized during the year	85
Payments	(867)
Carrying amount at 31 December 2021	1,765
Analysed into:	
Current portion	848
Non-current portion	917
As at 1 January 2022	1,765
Accretion of interest recognized during the year	46
Payments	(894)
Carrying amount at 31 December 2022	917
Analysed into:	
Current portion	917
Non-current portion	–

The maturity analysis of lease liabilities is disclosed in note 36 to the financial statements.

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

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	**46**	85
Depreciation charge of right-of-use assets	**820**	999
Expense relating to short-term leases	**79**	1,134
Total amount recognized in profit or loss	**945**	2,218

14. LEASES (continued)

The Group as a lessor

The Group leases its investment properties (note 13) consisting of three properties in Hong Kong and one property and 136 car parks in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognized by the Group during the year was RMB25,507,000 (2021: RMB27,406,000), details of which are included in note 4 to the financial statements.

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

	2022 **RMB'000**	2021 RMB'000
Within one year	**3,196**	28,309
After one year but within two years	**1,486**	5,101
After two years but within three years	**1,409**	1,338
After three years but within four years	**235**	1,338
After four years but within five years	**–**	223
	6,326	36,309

15. GOODWILL

	RMB'000
At 1 January 2021 and 31 December 2021:	
Cost	5,210
Accumulated impairment	–
Net carrying amount	5,210
Cost at 1 January 2022, net of accumulated impairment	5,210
Impairment during the year	(3,240)
Cost and net carrying amount at 31 December 2022	1,970
At 31 December 2022:	
Cost	5,210
Accumulated impairment	(3,240)
Net carrying amount	1,970

15. GOODWILL (continued)

Goodwill acquired in business combinations was allocated, at acquisition, to an individual cash-generating unit ("CGU"), comprising a subsidiary engaged in the research and development, production and sale of education equipment.

Impairment testing of goodwill

Production and sale of education equipment business

The recoverable amount of CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 18% (31 December 2021: 27%). The growth rate used to extrapolate the cash flows of the industrial products unit beyond the five-year period is 2% (31 December 2021: 3%) per annum, which is based on industry growth forecasts.

Assumptions were used in the value-in-use calculation of the CGU for 31 December 2022 and 31 December 2021. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted sales and gross margins – The basis used to determine the value assigned to the budgeted sales and gross margins is the average results achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant unit.

The values assigned to the key assumptions on the market development of the production and sale of education equipment business and the discount rate are consistent with external information sources.

During the year, Covid-19 has negatively continued to affect the production and sale of education equipment business operation, leading to decrease in production and sale of education equipment business operation development and triggering the impairment provision. The directors have consequently determined impairment of goodwill based on the valuation report issued by an independent professional valuer.

As the recoverable amount of the production and sale of education equipment cash-generating unit was less than the carrying amount, impairment loss of RMB3,240,000 was recognised in the consolidated financial statements for the year ended 31 December 2022.

16. OTHER INTANGIBLE ASSETS

	Design patents RMB'000
31 December 2022	
Cost at 1 January 2022, net of accumulated amortization:	**15,012**
Amortization provided during the year	**(2,434)**
Net carrying amount	**12,578**
At 31 December 2022:	
Cost	**24,343**
Accumulated amortization	**(11,765)**
Net carrying amount	**12,578**

	Design patents RMB'000
31 December 2021	
Cost at 1 January 2021, net of accumulated amortization:	17,446
Amortization provided during the year	(2,434)
Net carrying amount	15,012
At 31 December 2021:	
Cost	24,343
Accumulated amortization and impairment	(9,331)
Net carrying amount	15,012

17. INVESTMENTS IN JOINT VENTURES

	2022	2021
	RMB'000	RMB'000
Share of net assets in Joint ventures	**3,918**	2,813

Particulars of the Group's joint ventures are as follows:

Name	Registered capital	Place of incorporation/ registration and business	Ownership interest	Voting power	Profit sharing	Principal activities
Hejian Qingkong (Shandong) Project Management Co., Ltd	RMB10,000,000	PRC/ Mainland China	25.50	25.50	25.50	Construction engineering supervision and engineering cost consulting business
Huizhou Yanlong Real Estate Co., Ltd	RMB10,000,000	PRC/ Mainland China	24.99	24.99	24.99	Real estate development business
Hejian Qingkong Construction Engineering Co., Ltd	RMB50,000,000	PRC/ Mainland China	25.50	25.50	25.50	Construction engineering supervision and engineering cost consulting business

The above investments are indirectly held by the Company.

The financial year of the above joint ventures is coterminous with that of the Group.

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

	2022	2021
	RMB'000	RMB'000
Share of the joint ventures' loss for the year	**(6,795)**	(187)
Share of the joint ventures' total comprehensive income	**(6,795)**	(187)
Aggregate carrying amount of the Group's investments in the joint ventures	**3,918**	2,813

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 **RMB'000**	2021 RMB'000
Unlisted investment, at fair value	**2,133**	2,390

On 29 June 2016, a wholly-owned subsidiary of the Company (the "Subscriber") entered into a subscription agreement, pursuant to which the Subscriber agreed to subscribe for the Class A shares in the Asian Bond Fund Segregated Portfolio (the "Sub-Fund") of CMBI (an exempted segregated portfolio company incorporated in the Cayman Islands with limited liability) for an aggregate consideration of US$1,795,000 (equivalent to approximately RMB11,950,000). The Sub-Fund is a segregated portfolio of a fund (the "Fund") and managed by CMB International Asset Management Limited. The subscription of the Class A shares in the Sub-Fund, representing approximately 8.50% of the total issued Class A shares of the Sub-Fund, was completed on 7 July 2016.

The Fund aims at generating interest income and long-term capital appreciation, with at least 70% of its net assets invested in a broad range of fixed income securities and instruments and derivative financial instruments for investment and hedging purposes. Not more than 30% of the Sub-Fund's net assets may be invested in assets not meeting the above requirements.

Shares of the Sub-Fund may be redeemed at a redemption price which equals the net asset value per share as at the valuation date immediately preceding the dealing date. The Sub-Fund may redeem all or some of the shares of the Sub-Fund held by any person if, in the opinion of the directors of the Fund, it is in the interests of the Sub-Fund or when certain conditions are met, at the prevalent redemption price. The price of each share equals the net asset value per share after adjusting for all liabilities accrued or contingent upon the liquidation of the Sub-Fund.

There is no guaranteed nor targeted level of dividend payment from the Sub-Fund. The Sub-Fund may at its full discretion declare none, partial or all of its income accrued or received, realised capital gains and capital of the Sub-Fund to its shareholders.

In 2020, the Group disposed of 13,500 shares, which were 76% of the total shares held, and reclassified the remaining 4,377.64 shares from non-current assets to current assets as management planned to dispose of them in the near future.

As 31 December 2022, the fair value of the investment in the Sub-Fund of RMB2,133,000 (31 December 2021: RMB2,390,000) was determined by reference to the quoted price, which was provided by the issuing financial institution (Level 2 measurement).

19. INVENTORIES

	2022 **RMB'000**	2021 RMB'000
Raw materials	**12,111**	12,342
Finished goods	**6,897**	4,181
Properties under development	**210,132**	40,149
	229,140	56,672
Less: impairment of inventories	**(220)**	(185)
	228,920	56,487

20. TRADE AND OTHER RECEIVABLES

	2022 **RMB'000**	2021 RMB'000
Current portion:		
Trade receivables	**7,522**	5,020
Less: Allowance for credit losses	**(1,462)**	(1,280)
	6,060	3,740
Deposits, prepayments and other receivables	**3,932**	6,613
Less: Allowance for credit losses	**(195)**	(500)
	3,737	6,113
Advance payment of income tax	**2,423**	–
Value-added tax recoverable	**131**	2,940
	12,351	12,793

20. TRADE AND OTHER RECEIVABLES (continued)

According to the Group's trading terms with its customers, payment in advance is normally required, except for certain customers, where a credit period is allowed. The credit period is generally three months, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The current portion of deposits, prepayments and other receivables mainly represents prepayments and the deposits with suppliers and other parties. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group and are adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. During the current year, a credit loss is fully accrued on an uncollectible prepayment by RMB195,000 (31 December 2021: RMB500,000). Except this, the credit quality of the financial assets included in prepayments and other receivables is considered normal because they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk.

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

	2022 **RMB'000**	2021 RMB'000
Within 1 month	**4,738**	1,238
1 to 2 months	**–**	259
Over 3 months	**1,322**	2,243
	6,060	3,740

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

	2022 **RMB'000**	2021 RMB'000
At beginning of year	**1,280**	107
Impairment Losses, net	**182**	1,173
At end of year	**1,462**	1,280

20. TRADE AND OTHER RECEIVABLES (continued)

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

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

As at 31 December 2022

	Current	**Past due**	**Total**
Expected credit loss rate	**11.65%**	**38.79%**	**19.44%**
Gross carrying amount (RMB'000)	**5,364**	**2,158**	**7,522**
Expected credit losses (RMB'000)	**625**	**837**	**1,462**

As at 31 December 2021

	Current	Past due	Total
Expected credit loss rate	13.69%	37.47%	25.49%
Gross carrying amount (RMB'000)	2,529	2,491	5,020
Expected credit losses (RMB'000)	346	934	1,280

21. CASH AND CASH EQUIVALENTS

	2022 **RMB'000**	2021 RMB'000
Cash and bank balances	**173,011**	219,724
Time deposits	**–**	13,053
	173,011	232,777

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB54,264,000 (31 December 2021: RMB78,381,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the deposit rates of the respective periods. The bank balances are deposited with creditworthy banks or financial institutions with no recent history of default.

22. TRADE AND OTHER PAYABLES

	2022	2021
	RMB'000	RMB'000
Trade payables	**176,098**	957
Other payables	**5,889**	1,385
Other taxes payable	**1,096**	1,717
Accrued charges	**4,624**	4,405
	187,707	8,464

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

	2022	2021
	RMB'000	RMB'000
Within 1 month	**174,813**	70
1 to 2 months	**1,016**	33
2 to 3 months	**26**	1
Over 3 months	**243**	853
	176,098	957

The trade and other payables are non-interest-bearing and are normally settled on 90-day terms.

23. CONTRACT LIABILITIES

	2022	2021
	RMB'000	RMB'000
Receipt in advance on sales of education equipment	**1,271**	2,891

The Group receives the prepayments from customers when they sign the purchase agreements which are recognized as contract liabilities at the execution of a contract, until the revenue is recognized on the relevant contracts. The contract liabilities recorded at the beginning of the year had been fully recognized as revenue during the year. The balance at 31 December 2022 will be recognized as revenue for the year ending 31 December 2023.

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2022			2021		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities (note 14)	**4.75**	**2023**	**917**	4.75	2022	848
Bank loans – secured	**2.44–7.5**	**Note (b)**	**40,454**	2.36–2.8	Note (b)	71,729
Current portion of long-term bank loans – secured	**4.50**	**2023**	**990**	4.55	2022	990
			42,361			73,567
Non-current						
Lease liabilities (note 14)	**–**	**–**	**–**	4.75	2023	917
Bank loans – secured	**4.50**	**2031**	**7,095**	4.55	2031	8,084
			7,095			9,001
Analysed into:						
Bank loans repayable:						
Within one year or on demand			**41,444**			72,719
In the second year			**990**			990
In the third to five years, inclusive			**2,970**			2,970
Beyond five years			**3,135**			4,124
			48,539			80,803
Other borrowings repayable:						
Within one year			**917**			8,48
In the second year			**–**			917
			917			1,765
			49,456			82,568

Notes:

(a) As at 31 December 2022, the Group had no unutilised banking facilities (31 December 2021: Nil).

(b) Certain of the Group's bank loans are secured by:

(i) Mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value of RMB136,675,000 at the end of the reporting period (31 December 2021: RMB132,323,000).

(ii) Mortgages over the Group's property, plant and equipment, which had a net carrying value at the end of the reporting period of approximately RMB25,630,000 (31 December 2021: RMB25,445,000).

(c) A secured bank loan of RMB40,454,000 is denominated in Hong Kong dollars, accounting for 100.00% (31 December 2021: RMB47,407,000, accounting for 66.09%), while borrowings of nil are in United States dollars (31 December 2021: RMB24,322,000), both are required to repay on demand.

25. DEFERRED TAX

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

Deferred tax assets

	Lease liabilities RMB'000	Intangible assets RMB'000	Impairment loss RMB'000	Tax losses recognized RMB'000	Total RMB'000
At 1 January 2021	29	2,442	67	9,893	12,431
Charged to profit or loss	4	(1,022)	327	(925)	(1,616)
Exchange realignment	–	–	–	(60)	(60)
At 31 December 2021	33	1,420	394	8,908	10,755
Charged to profit or loss	(7)	(178)	10,812	113	10,740
Exchange realignment	–	–	–	204	204
At 31 December 2022	26	1,242	11,206	9,225	21,699

Deferred tax liabilities

	Revaluation of investment properties RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At 1 January 2021	8,323	11,731	20,054
Charged to profit or loss	2,739	2,855	5,594
Exchange realignment	(84)	(21)	(105)
At 31 December 2021	10,978	14,565	25,543
Charged to profit or loss	(7,664)	2,358	(5,306)
Exchange realignment	273	59	332
At 31 December 2022	3,587	16,982	20,569

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2022 RMB'000	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**5,058**	3,670
Net deferred tax liabilities recognised in the consolidated statement of financial position	**3,928**	18,458

25. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

At 31 December 2022, the Group had unused tax losses of RMB54,825,000 (31 December 2021: RMB47,491,000) available for offsetting against future profits. A deferred tax asset has been recognized in respect of RMB45,535,000 (31 December 2021: RMB35,734,000) of such losses. No deferred tax asset has been recognized in respect of the remaining unused tax losses of RMB9,290,000 (31 December 2021: RMB11,757,000) because it is not considered probable that taxation profits will be available. Tax losses amounting to RMB24,894,000 (31 December 2021: RMB21,809,000) may be carried forward indefinitely under current tax regulations in Hong Kong. The remaining balance amounting to RMB29,931,000 (31 December 2021: RMB25,682,000) arising in Mainland China may be carried forward for five to ten years.

At 31 December 2022, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized total approximately RMB256,000 at 31 December 2022 (31 December 2021: RMB4,707,000).

26. SHARE CAPITAL

Shares

The number of authorised capital is 20,000,000,000. The par value per share is HK$0.1.

	31 December 2022 RMB'000	31 December 2021 RMB'000
Issued and fully paid 998,553,360 (2021: 998,553,360) ordinary shares	**81,257**	81,257

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** RMB'000
At 1 January 2021,	499,276,680	39,942
Rights issue (Note)	499,276,680	41,315
31 December 2021, 1 January 2022 and 31 December 2022	998,553,360	81,257

Note: A rights issue of one rights share for every one existing share held by members on the register of members on 11 May 2021 was made, at an issue price of approximately RMB0.32 (HK$0.39) per rights share, resulting in the issue of 499,276,680 shares for a total cash consideration, before expenses, of RMB161,539,154.

27. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the shareholders at the annual general meeting of the Company dated 22 August 2013, a share option scheme (the "Scheme") was approved. The Scheme was adopted on 27 August 2013.

The Scheme was established for the purpose of providing incentives for the contribution of directors and eligible persons. The Scheme will remain in force for a period of ten years from adoption of the Scheme. The Scheme will expire on 27 August 2023.

Under the Scheme, the directors of the Company may at their discretion grant options to (i) any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or (ii) the trustee of any trust, the beneficiary of which or any discretionary trust, the discretionary objects of which include any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or (iii) a company beneficially owned by any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate.

Options granted must be taken up within 14 days of the date of grant. The maximum number of shares, in respect of which options may be granted under the Scheme, shall not exceed 10% of the issued share capital of the Company at any point in time, without prior approval from the Company's shareholders. The number of shares issued, and to be issued, in respect of which options granted and may be granted to any individual in any one year, is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the directors of the Company (which shall be less than ten years from the date of issue of the relevant option). Options may be granted without initial payment except the payment of HK$1 as consideration for a grant of options each time. The exercise price is determined by the directors of the Company and will be not less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

No share option has been granted under the Scheme since its adoption.

28. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2022	2021
Percentage of equity interest held by non-controlling interests:		
山東啟華教育科技有限公司	**49%**	49%
核建青控開發建設有限公司	**49%**	49%
蚌埠市淮翼建設發展有限公司	**5%**	5%

	2022 RMB'000	2021 RMB'000
Loss for the year allocated to non-controlling interests:		
山東啟華教育科技有限公司	**(868)**	(870)
核建青控開發建設有限公司	**(4,442)**	(2,073)
蚌埠市淮翼建設發展有限公司	**–**	–
Accumulated balances of non-controlling interests at the reporting date:		
山東啟華教育科技有限公司	**31,041**	31,909
核建青控開發建設有限公司	**27,164**	31,606
蚌埠市淮翼建設發展有限公司	**1,945**	1,945

28. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2022	**山東啟華教育科技有限公司 RMB'000**	**核建青控開發建設有限公司 RMB'000**	**蚌埠市淮翼建設發展有限公司 RMB'000**
Revenue	**31,094**	**–**	**–**
Total expenses	**32,866**	**9,065**	**1**
Loss for the year	**(1,772)**	**(9,065)**	**(1)**
Current assets	**35,233**	**36,748**	**213,999**
Non-current assets	**43,457**	**45,180**	**–**
Current liabilities	**(6,275)**	**(10,704)**	**(175,091)**
Non-current liabilities	**(7,095)**	**–**	**–**
Net cash flows (used in)/from operating activities	**(2,675)**	**891**	**(391)**
Net cash flows used in investing activities	**(1,506)**	**(3,000)**	**–**
Net cash flows used in financing activities	**(1,384)**	**(894)**	**–**
Net decrease in cash and cash equivalents	**(5,565)**	**(3,003)**	**(391)**

2021	山東啟華教育科技有限公司 RMB'000	核建青控開發建設有限公司 RMB'000	蚌埠市淮翼建設發展有限公司 RMB'000
Revenue	41,854	–	–
Total expenses	43,629	4,233	(2)
(Loss)/profit for the year	(1,775)	(4,233)	2
Current assets	38,362	38,869	39,807
Non-current assets	41,953	44,294	–
Current liabilities	(7,109)	(1,957)	(900)
Non-current liabilities	(8,085)	(917)	–
Net cash flows (used in)/from operating activities	(8,904)	(1,143)	840
Net cash flows used in investing activities	(21,540)	(40,143)	–
Net cash flows from financing activities	9,075	40,804	–
Net (decrease)/increase in cash and cash equivalents	(21,369)	(482)	840

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had no non-cash additions to non-controlling interests in respect of acquisition of assets (2021:RMB1,945,000).

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Loan from and amount due to the ultimate holding company RMB'000	Loan from and amount due to an intermediate holding company RMB'000	Total RMB'000
At 31 January 2021	39,497	444,100	–	483,597
Changes from financing cash flows	43,647	8,901	(127)	52,421
Interest expenses	1,255	21,099	1,025	23,379
Exchange realignment	(1,831)	–	(898)	(2,729)
At 31 December 2021	82,568	474,100	–	556,668
Changes from financing cash flows	(41,274)	(36,514)	–	(77,788)
Interest expenses	2,166	21,514	–	23,680
Exchange realignment	5,996	–	–	5,996
At 31 December 2022	49,456	459,100	–	508,556

(c) Total cash outflow for leases

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

	2022 RMB'000	2021 RMB'000
Within operating activities	**(79)**	(1,134)
Within financing activities	**(894)**	(867)
	(973)	(2,001)

30. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

31. PLEDGE OF ASSETS

As at 31 December 2022, the Group pledged certain of its investment properties with market value of RMB136,675,000 (31 December 2021: RMB132,323,000) to a bank in Hong Kong to obtain mortgage bank loans in Hong Kong of approximately RMB40,454,000 (31 December 2021: RMB71,729,000). As at 31 December 2022, the Group pledged its property, plant and equipment with a net carrying amount of approximately RMB25,630,000 (31 December 2021: RMB25,445,000) to a bank in Mainland China to obtain mortgage bank loan in Mainland China of approximately RMB8,085,000 (31 December 2021: 9,074,000). As at 31 December 2022, the Group had no unutilised banking facilities (31 December 2021: Nil).

32. COMMITMENTS

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

	2022 **RMB'000**	2021 RMB'000
Contracted, but not provided for:		
Acquisition of subsidiary (Note)	–	1,982,300
Leasehold land and buildings	–	310
Capital contributions payable to Joint Ventures	**28,900**	31,900
	28,900	2,014,510

Note: On 17 March 2021, Yangfan (Holdings) Group Limited (the Purchaser, an indirect wholly owned subsidiary of the Company) and CQDHG (the Vendor) entered into the Sale and Purchase Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Target Equity Interest, being approximately 81.91% of the equity interest in the Qingdao Rural Construction Financial Leasing Company Limited (the Target Company), at a consideration of approximately RMB1,982.3 million (approximately HK$2,378.7 million). The Consideration shall be satisfied as follows: (i) approximately RMB128.8 million (approximately HK$154.5 million) shall be payable by the Purchaser (or its designated corporation) to the Vendor (or its nominee(s)) in cash upon Completion; and (ii) approximately RMB1,853.5 million (approximately HK$2,224.2 million) shall be payable by the issue of the Consideration CB by the Company to the Vendor (or its nominee(s)) upon Completion. As at 31 December 2022, this transaction has been terminated.

33. RELATED PARTY DISCLOSURES

(a) The Group had the following transactions with related parties during the year:

	Notes	2022 RMB'000	2021 RMB'000
A joint venture:			
Interest income from a loan		**19,165**	22,422
The ultimate holding company:			
Interest expense on loans	(i)	**16,567**	16,567
Interest expense on loans	(ii)	**4,947**	4,532
An intermediate holding company:			
Rental Income	(iii)	**237**	229
Interest expense on loans		**–**	1,025

(b) Balance with related parties

	Notes	2022 RMB'000	2021 RMB'000
Amounts due from related parties			
Current portion			
Amount due from a joint venture	(ii)	**198,606**	174,100
Impairment provision	(ii)	**(43,694)**	(116)
		154,912	173,984
Amounts due to related parties			
Current portion			
Amount due to the ultimate holding company	(ii)	**115,100**	130,100
Amount due to a non-controlling shareholder of a subsidiary (included in trade and other payables)	(iv)	**174,582**	–
		289,682	130,100
Non-current portion			
Amount due to the ultimate holding company	(i)	**344,000**	344,000
Amount due to an intermediate holding company (included in rental deposits from tenants)	(iii)	**21**	20
		344,021	344,020

33. RELATED PARTY DISCLOSURES (continued)

(b) Balance with related parties (continued)

Notes:

(i) As 31 December 2022, the RMB-denominated loan from the ultimate holding company of RMB344,000,000 (31 December 2021: RMB344,000,000) was unsecured with the maturity date of 31 December 2024. The fixed interest rate on the loan is 4.75% per year. The Company has recognized an interest expense on the loan amounting to RMB16,567,000 for the year ended 31 December 2022 (31 December 2021: RMB16,567,000).

(ii) At 7 May 2020, Qingdao Qifeng Technology Services Co., Ltd. ("Qifeng", an indirect wholly-owned subsidiary of the Company), Qingdao Urban Rural Construction Micro-credit Loan Co. Ltd. ("QURC Micro-credit Loan Company") and Huizhou Jiuyu Real Estate Company Limited ("Huizhou Jiuyu", a joint venture of the Group) entered into a loan arrangement, pursuant to which QURC Micro-credit Loan Company, acting as the lending agent, will release a loan in the principal amount of RMB195,100,000, which will be funded by Qifeng, to Huizhou Jiuyu, with a loan term of 2 years in accordance with the terms of the loan contract. As at 31 December 2022, the RMB-denominated loan has been provided to Huizhou Jiuyu of RMB191,600,000 (31 December 2021: RMB174,100,000) and bears interest at a fixed rate of 15% per year. The interest receivable of Huizhou Jiuyu is RMB 7,006,000 (31 December 2021: Nil), The Company has recognized interest income on the loan amounting to RMB19,165,000 during 2022 (2021: RMB22,422,000). Pursuant to the Loan Contract, the loan is guaranteed by the leasehold land and buildings owned by Huizhou Jiuyu and an interest in Huizhou Yanlong Land Company Limited ("Huizhou Yanlong", the shareholder of Huizhou Jiuyu) owned by Huizhou Meile Land Company Limited.

Out of the total balance due from a joint venture, principal amount of RMB191,600,000 and interest amount of RMB7,006,000 was overdue by 31 December 2022. As at 31 December 2022, the expected credit losses amounting to RMB43,694,000 (31 December 2021: RMB116,000) were estimated by fair value of collateral and recovery rate. The loss rate applied at 31 December 2022 was 22.00% (31 December 2021: 0.07%).

Qingdao City Construction Investment (Group) Limited ("QCCIG"), the ultimate controlling shareholder of the Company, entered into the loan agreement with Qifeng on the same day, pursuant to which, QCCIG has agreed to provide, upon Qifeng's request, an unsecured loan of RMB182,000,000 to Qifeng. Such loan will be available for drawdown by Qifeng in accordance with Qifeng's actual needs within two years from the first drawdown under the loan agreement at an interest rate of 3.85% per annum. The Group intends to use the loan provided by QCCIG to fund the loan to be made to Huizhou Jiuyu. As 31 December 2022, the RMB-denominated loan from the ultimate holding company of RMB115,100,000 (31 December 2021: RMB130,100,000) was unsecured and bears interest at a fixed rate of 3.85% per annum. The loan was due on 24 December 2022 and was required to repay on demand.

(iii) The Group has leased one of its commercial properties in Hong Kong under an operating lease agreement to an intermediate holding company, China Qingdao Development (Holdings) Group Company Limited. The initial lease period was from 1 June 2019 to 31 May 2020, and was renewed to extend the maturity date to 31 May 2023. The Group has recognized rental income of RMB237,000 for the year ended 31 December 2022 (year ended 31 December 2021: RMB229,000), and the outstanding balances due to the intermediate holding company of RMB21,000 (year ended 31 December 2021: RMB20,000), which are included in rental deposits from tenants in the consolidated statement of financial position as at the end of the reporting period respectively are unsecured, interest-free and have no fixed terms of repayment.

33. RELATED PARTY DISCLOSURES (continued)

(b) Balance with related parties (continued)

Notes: (continued)

(iv) In June 2021, Bengbu City Huai Yi Construction and Development Ltd. (an indirect subsidiary of the Company) issued a construction bidding announcement for the resettlement housing project of Yongkang Yuan, with a project budget of RMB470,000,000. In January 2022, it was announced that the winning bidder for construction was China Nuclear Industry Zhongyuan Construction Co., Ltd. (a non-controlling shareholder), with a winning bid amount of RMB444,677,000. On 30 December 2022, Bengbu City Huai Yi Construction and Development Ltd. signed a construction project contract with China Nuclear Industry Zhongyuan Construction Co., Ltd. for a total consideration of RMB444,677,000. Construction of the project has begun in 2022, and as at 31 December 2022, the amount of trade payable to China Nuclear Industry Zhongyuan Construction Co., Ltd. was RMB174,582,000.

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

	2022 RMB'000	2021 RMB'000
Short-term benefits	**960**	915

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

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

31 December 2022

	Financial assets at fair value through profit or loss – mandatorily designated as such RMB'000	Financial assets at amortized cost RMB'000	Total RMB'000
Trade receivables	–	6,060	6,060
Financial assets included in other receivables	–	976	976
Financial assets at fair value through profit or loss	2,133	–	2,133
Amount due from a joint venture	–	154,912	154,912
Cash and cash equivalents	–	173,011	173,011
	2,133	334,959	337,092

31 December 2021

	Financial assets at fair value through profit or loss – mandatorily designated as such RMB'000	Financial assets at amortized cost RMB'000	Total RMB'000
Trade receivables	–	3,740	3,740
Financial assets included in other receivables	–	983	983
Financial assets at fair value through profit or loss	2,390	–	2,390
Amount due from a joint venture	–	173,984	173,984
Cash and cash equivalents	–	232,777	232,777
	2,390	411,484	413,874

34. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

31 December 2022

	Financial liabilities at amortized cost RMB'000
Trade payables	**176,098**
Financial liabilities included in other payables	**6,334**
Interest-bearing bank and other borrowings	**49,456**
Loan from the ultimate holding company	**459,100**
	690,988

31 December 2021

	Financial liabilities at amortized cost RMB'000
Trade payables	957
Financial liabilities included in other payables	2,653
Interest-bearing bank and other borrowings	82,568
Loan from the ultimate holding company	474,100
	560,278

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments reasonably approximate to fair values.

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in other receivables, loan and interest receivables, trade payables and financial liabilities included in other payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions are used to estimate the fair values:

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of the interest-bearing bank borrowings and loan from and amount due to the ultimate holding company have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as the result of the Group's own non-performance risk for the interest-bearing bank borrowings and loan from and amount due to the ultimate holding company as at 31 December 2022 are assessed to be insignificant.

The Group invests in wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group also invests in an unlisted investment issued by a financial institution in Hong Kong, the fair value of which is determined with reference to the quoted price provided by the issuing financial institution.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Financial assets at fair value through profit or loss	**–**	**2,133**	**–**	**2,133**

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	2,390	–	2,390

Liabilities measured at fair value:

The Group does not have any financial liabilities measured at fair value as 31 December 2022 and 31 December 2021. During the current year, there are no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (31 December 2021: Nil).

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	48,539	–	48,539
Loan from the ultimate holding company	–	459,100	–	459,100
	–	507,639	–	507,639

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	80,803	–	80,803
Loan from the ultimate holding company	–	474,100	–	474,100
	–	554,903	–	554,903

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise trade and other receivables, loan and interest receivables, financial assets at fair value through profit or loss, other financial assets, cash and cash equivalents, trade and other payables, interest-bearing bank and other borrowings and amounts due to the ultimate holding company and loans from the ultimate holding company. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are foreign currency risk, other price risk, interest rate risk, credit risk and liquidity risk. Management reviews and agrees policies for managing each of these risks and they are summarised below.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group's businesses are principally conducted in Hong Kong dollars ("HK$") for group entities with operation in Hong Kong and RMB for group entities with operation in both Hong Kong and Mainland China, the functional currencies of which are HK$ and RMB, respectively. The Group currently does not have a currency hedging policy. However, management monitors foreign currency exposure and will consider hedging significant currency exposure should the need arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ and US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities).

	Increase/ (decrease) in HK$/US$ rate	**Increase/ (decrease) In profit before tax**	**Increase/ (decrease) In equity***
	%	RMB'000	RMB'000
Year ended 31 December 2022			
If the RMB weakens against HK$	5	2,783	6,823
If the RMB strengthens against HK$	(5)	(2,783)	(6,823)
If the RMB weakens against US$	5	14	–
If the RMB strengthens against US$	(5)	(14)	–
Year ended 31 December 2021			
If the RMB weakens against HK$	5	4,124	6,231
If the RMB strengthens against HK$	(5)	(4,124)	(6,231)
If the RMB weakens against US$	5	(1,142)	–
If the RMB strengthens against US$	(5)	1,142	–

* Excluding retained profits

Other price risk

The Group is exposed to equity price risk through its investment in financial assets at fair value through profit or loss (note 18). The Group does not have a formal policy to manage its price risk arising from its investment in the financial asset.

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date.

With all other variables held constant, if the quoted price of the financial assets at fair value through profit or loss measured at fair value had been 10% higher/lower than the actual closing price as at the year end, the post-tax profit for the year ended 31 December 2022 would increase/decrease by approximately RMB213,300 (as at 31 December 2021: RMB239,000).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
Year ended 31 December 2022		
Hong Kong dollar	100	405
Hong Kong dollar	(100)	(405)
United States dollar	100	–
United States dollar	(100)	–
RMB	100	81
RMB	(100)	(81)
Year ended 31 December 2021		
Hong Kong dollar	100	(474)
Hong Kong dollar	(100)	474
United States dollar	100	(243)
United States dollar	(100)	243
RMB	100	91
RMB	(100)	(91)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The carrying amounts of cash and cash equivalents, trade receivables, loan and interest receivables, financial assets included in other receivables, financial assets at fair value through profit or loss and other financial assets represent the Group's maximum exposure to credit risk in relation to financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in Hong Kong and Mainland China, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments, and they were all classified within stage 1 as at 31 December 2022, which is mainly based on past due information unless other information is available without undue cost or effort.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loan to a joint venture	–	–	198,606	–	198,606
Trade receivables*	–	–	–	7,522	7,522
Financial assets included in other receivables					
– Normal**	976	–	–	–	976
Cash and cash equivalents					
– Not yet past due	173,011	–	–	–	173,011
	173,987	–	198,606	7,522	380,115

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2021

	12-month ECLs	Lifetime ECLs			
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loans to a joint venture	174,100	–	–	–	174,100
Trade receivables*	–	–	–	5,020	5,020
Financial assets included in other receivables					
– Normal**	983	–	–	–	983
Cash and cash equivalents					
– Not yet past due	232,777	–	–	–	232,777
	407,860	–	–	5,020	412,880

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 20 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, loans from and amounts due to the ultimate holding company and an intermediate holding company, lease liabilities and other interest-bearing loans. 31% of the Group's debts would mature in less than one year as at 31 December 2022 (31 December 2021: 37%) based on the carrying value of borrowings reflected in the financial statements.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. It is the Group's policy to renew its loan agreements with the ultimate holding company, or major banks upon the maturity of the Group's short and long-term borrowings when funding is needed.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2022

	On demand or no fixed terms of repayment RMB'000	Within one year RMB'000	Over one year RMB'000	Total RMB'000
Trade and other payables	**182,432**	**–**	**–**	**182,432**
Interest-bearing bank and other borrowings	**40,454**	**2,253**	**8,252**	**50,959**
Loan from and amount due to the ultimate holding company	**115,100**	**16,340**	**360,340**	**491,780**
	337,986	**18,593**	**368,592**	**725,171**

31 December 2021

	On demand or no fixed terms of repayment RMB'000	Within one year RMB'000	Over one year RMB'000	Total RMB'000
Trade and other payables	3,720	–	–	3,720
Interest-bearing bank and other borrowings	71,729	2,276	10,522	84,527
Loan from and amount due to the ultimate holding company	–	151,339	360,340	511,679
	75,449	153,615	370,862	599,926

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of net debt, which includes trade and other payables, interest-bearing bank and other borrowings, and loan from the ultimate holding company, net of cash and cash equivalents and equity attributable to owners of the parent, comprising issued share capital and reserves. The gearing ratios as at the end of the reporting periods were as follows:

	2022	2021
	RMB'000	RMB'000
Trade and other payables	**182,432**	3,720
Interest-bearing bank and other borrowings	**49,456**	82,568
Loan from the ultimate holding company	**459,100**	474,100
Less: Cash and cash equivalents	**173,011**	232,777
Net debt	**517,977**	327,611
Total equity	**398,395**	450,333
Equity and net debt	**916,372**	777,944
Gearing ratio	**57%**	42%

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2022 RMB'000	31 December 2021 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**1,232**	11
Interests in subsidiaries	**229,992**	210,099
Total non-current assets	**231,224**	210,110
CURRENT ASSETS		
Other receivables	**218**	1,100
Cash and cash equivalents	**101,327**	132,736
Total current assets	**101,545**	133,836
CURRENT LIABILITIES		
Other payables and accruals	**2,495**	1,817
Amounts due to subsidiaries	**96,985**	88,154
Interest-bearing bank and other borrowings	**40,454**	71,727
Total current liabilities	**139,934**	161,698
NET CURRENT LIABILITIES	**(38,389)**	(27,862)
TOTAL ASSETS LESS CURRENT LIABILITIES	**192,835**	182,248
Net assets	**192,835**	182,248
EQUITY		
Share capital	**81,257**	81,257
Reserves (Note)	**111,578**	100,991
Total equity	**192,835**	182,248

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Contributed surplus RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 31 December 2020 and 1 January 2021	503,367	314	(405,959)	97,722
Issue of shares	118,576	–	–	118,576
Loss and total comprehensive loss for the year	–	–	(115,307)	(115,307)
At 31 December 2021	621,943	314	(521,266)	100,991
Unclaimed dividends received	1,160	–	–	1,160
Profit and total comprehensive income for the year	–	–	9,427	9,427
At 31 December 2022	623,103	314	(511,839)	111,578

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of a former subsidiary at the date on which the Group reorganisation became effective and the nominal amount of the share capital of the Company issued under a previous group reorganisation in 1997. A rights issue of one rights share for every one existing share held by members on the register of members on 11 May 2021 was made, at an issue price of approximately RMB0.32 (HK$0.39) per rights share, resulting in the issue of 499,276,680 shares for a total cash consideration, before expenses, of RMB161,539,154.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of the contributed surplus, if:

(a) The Company is, or would after the payment be unable to pay its liabilities as they become due or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account (if any).

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2023.

SCHEDULE OF PRINCIPAL PROPERTIES

Location	Approximate gross floor area (sq. ft.)	Use	Term of lease	Group's ownership
INVESTMENT PROPERTIES				
Flat E on 13th Floor, Hing On Mansion, On Shing Terrace, No. 5 Tai Yue Avenue, Taikoo Shing, Hong Kong	678	Residential	Medium-term lease	100%
Workshop Unit Nos. 03 to 07 on 9th Floor, Harbour Centre Tower 1, No. 1 Hok Cheung Street, Hung Hom, Kowloon, Hong Kong	16,225	Industrial and commercial	Medium-term to long lease	100%
Office Unit No. 1805, 18th Floor, Tower Two, Lippo Centre, No. 89 Queensway, Hong Kong	1,554	Commercial	Medium-term lease	100%
All office units on 4th Floor to 6th Floor and 12th Floor to 21st Floor and car parking spaces, "22nd Century Plaza", No. 39 Long Cheng Road, Shibei District, Qingdao City, Shandong Province, Mainland China	179,908	Commercial	Long lease	100%