



HUAXI HOLDINGS COMPANY LIMITED

華禧控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1689



2022
Annual Report

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This Annual Report is printed on environmentally friendly paper

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zheng Andy Yi Sheng (*Chairman*)
Mr. Zheng Minsheng

Non-executive Director

Mr. Hao Jiming

Independent Non-executive Directors

Mr. Lau Kwok Hung
Mr. Fok Po Tin
Mr. Cai Xiaowen

AUDIT COMMITTEE

Mr. Lau Kwok Hung (*Chairman*)
Mr. Fok Po Tin
Mr. Cai Xiaowen

REMUNERATION COMMITTEE

Mr. Lau Kwok Hung (*Chairman*)
Mr. Fok Po Tin
Mr. Cai Xiaowen

NOMINATION COMMITTEE

Mr. Zheng Andy Yi Sheng (*Chairman*)
Mr. Lau Kwok Hung
Mr. Fok Po Tin

CORPORATE GOVERNANCE COMMITTEE

Mr. Zheng Andy Yi Sheng (*Chairman*)
Mr. Zheng Minsheng
Mr. Lau Kwok Hung

COMPANY SECRETARY

Mr. Yu Wing Cheung

AUTHORISED REPRESENTATIVES

Mr. Zheng Andy Yi Sheng
Mr. Yu Wing Cheung

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
Registered Public Interest Entity Auditor

LEGAL ADVISER

On Hong Kong law
Hastings & Co.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1906–07 Cosco Tower
183 Queen's Road Central
Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 4 Wanji North Street
Wanji Industrial District
Shantou City, Guangdong Province
People's Republic of China

REGISTERED OFFICE

Windward 3, Regatta Office Park,
P O Box 1350
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park,
P O Box 1350
Grand Cayman KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–16, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited
Bank of China Limited
China Minsheng Banking Corporation Limited
Industrial & Commercial Bank of China Limited

WEBSITE

<http://www.huaxihds.com.hk>

STOCK CODE

01689

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of directors (the “**Board**”) of Huaxi Holdings Company Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”), I respectfully present the results of the Group for the year ended 31 December 2022.

GROUP IN RETROSPECT

As of December 2022, the Chinese economy still faced multitude of trials and challenges, such as negative impacts from the COVID-19 pandemic and worsening geopolitical environment. Under the triple pressure of shrinking domestic demand, supply chain shocks, and weakening economic forecasts, the Chinese government took active countering measures, to ensure a stabilization of the domestic economy in short term, and gradual improvement in long term.

Chinese municipal government finances continue to deteriorate, compounded by three years of public health expenditures in pandemic prevention, and decrease in land-transfer revenue due to weak domestic real estate industry, forcing cuts on public spending and investments. These macro factors have been detriments to the Group's primary business expansions.

Moreover, during the year, the world had witnessed an unprecedented series of crises threatening world peace and civilization progress: the conflict between Russia and Ukraine since the beginning of the year had gradually morphed into tragedy for mankind, the war had brought immense suffering, and its economic shock far-reaching. At the same time, many countries around the world are experiencing high inflation, global energy and food prices have soared. People's income are contracting, and the problems they face are rising.

Even so, we have continued to work tirelessly, optimise our headcounts, and actively adopted measures to soften the negative impacts of the external environment on the Group's businesses.

At the end of 2022, the Chinese government announced that the coronavirus infection would return to a Category B management. After the adjustment and optimization of pandemic prevention and control measures, the Chinese economy exhibited a strong recovery, which played a significant role in boosting the global economic growth. The Party Central Committee, the State Council and other national ministries and commissions issued “Implementation Plan for In-Depth Urban Black and Odorous Water Treatment”, setting targets for collection and treatment rates of urban sewage, and elimination rate for black and odorous water, fully reflecting on the nation's uncompromising commitment to ecological civilization construction and environmental protection. The Group will continue to fine tune management abilities and operational efficiencies, seeking new ground for growth.

BUSINESS REVIEW

For the year ended 31 December 2022, the Group's revenue was approximately HK\$194.54 million and recorded a loss attributable to owners of the Company for approximately HK\$53.11 million, representing a decrease of 52% and 244% respectively over the last financial period.

China, as one of the signatories to the World Health Organization's Framework Convention on Tobacco Control, will continue to fulfil its responsibilities on tobacco control and harm reduction. However, tobacco tax revenue is also a major component of China's fiscal system. Juggling between tobacco control and collection of tobacco-related taxes, total domestic cigarette production remained stable in 2022.

The Group's tobacco packaging and materials business was impaired by unfavourable factors like the supply chain disruptions, rising raw material prices and energy costs. Both revenue and gross profit margin fell during this financial year.

CHAIRMAN'S STATEMENT

In our environmental and ecological restoration treatment business, the Group continued to partake in water environmental development projects in Huizhou this year, including the construction of drainage pipe network and river ecological maintenance. This year, the government had revised its investment budget in ecological restoration, the Group evaluated this new market reality, and made risk management measures accordingly.

REFORMING VISION FORWARD

2023 will be a crucial year for China, as it gears up to implement the “14th Five-Year Plan”. The nation emerges from its pandemic prevention policies and ushers in series of economy stabilizing policies and measures, domestic ecological restoration will also see new developments.

Internationally, changes of the century are accelerating. Domestically, the foundation for Chinese economic recovery is not yet solid. For a long time, China had been assembling a rich foundation of economic resources, strong base of skilled human capital, complete industrial system, vigorous scientific and technological capabilities and hosting a gigantic domestic market. In tandem, they form the cornerstone for the central government's push to promote economic development and hedge against external risks.

The Group will continue to seek opportunity to diversify. While solidifying our tobacco packaging and materials business, we will proactively pursue strategic opportunities arising from the development of the ecological restoration industry. Our goal is to diversify revenue sources and further promote business development, we shall actively seek out other qualifying investment opportunities.

WRAP UP

Finally, I would like to express my gratitude to the board of directors, our management team and employees. In the midst of operational difficulties, our staff exhibit the tenacity of “never quitting” and forging ahead, contributing to society and to nation building.

Zheng Andy Yi Sheng

Chairman

29 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND OPERATIONS REVIEW

During the year under review, the economic environment in the People's Republic of China (the "PRC") continued to be adversely affected by the resurgence of the 2019 novel coronavirus ("COVID-19"). The business environment was tough and difficult in the year. The Group's overall performance was weaker than the previous year.

The principal activities of the Group were manufacturing and sales of cigarette packaging materials (the "Cigarette Packaging Business") and environmental and ecological restoration treatment business (the "Environmental Treatment Business") in the PRC. For the year ended 31 December 2022 (the "Reporting Period" or "FY2022"), the total revenue of the Group was approximately HK\$194.54 million, representing a decrease of approximately HK\$210.02 million or 52% as compared with HK\$404.56 million for the year ended 31 December 2021 (the "FY2021"). Revenue from the Cigarette Packaging Business was approximately HK\$167.58 million (FY2021: HK\$183.93 million) and the Environmental Treatment Business was approximately HK\$26.64 million (FY2021: HK\$215.33 million) contributing approximately 86% (FY2021: 45%) and 14% (FY2021: 53%) respectively to the Group's revenue, and the rest was income from net of trading on film papers, carton boxes and other packaging materials for approximately HK\$0.32 million (FY2021: HK\$5.30 million).

Cigarette Packaging Business

Under the keen competition, fall of sales volume and increase of raw material price brought the adverse financial impact on the overall revenue and profitability of the Cigarette Packaging Business. During the Reporting Period, the total revenue from the Cigarette Packaging Business was approximately HK\$167.58 million, representing a decrease of HK\$16.35 million or 9% as compared with approximately HK\$183.93 million in FY2021. The following tables sets forth the breakdown of the Group's revenue from sales of cigarette packaging materials in the Reporting Period and FY2021:

| | Year ended 31 December 2022 | | Year ended 31 December 2021 | |
|---------------------------|--------------------------------|-------|--------------------------------|-------|
| | HK\$ '000 | % | HK\$ '000 | % |
| Inner Frame paper | 96,969 | 57.9 | 87,611 | 47.7 |
| Tipping paper | 41,933 | 25.0 | 57,631 | 31.3 |
| Cigarette box frame paper | 21,732 | 13.0 | 32,005 | 17.4 |
| Cigarette trademark label | 6,894 | 4.1 | 6,138 | 3.3 |
| Cigarette paper box | – | – | 489 | 0.3 |
| Others | 54 | 0.0 | 51 | 0.0 |
| Total | 167,582 | 100.0 | 183,925 | 100.0 |

ENVIRONMENTAL TREATMENT BUSINESS

In 2022, due to the impact of the resurgence of the pandemic outbreak, the PRC government implemented a number of prevention and control measures in Beijing, Shanghai, Guangzhou and several other cities that led to a significant drop in the number of new environmental treatment projects. During the Reporting Period, the Environmental Treatment Business recorded a revenue of approximately HK\$26.64 million, representing a decrease of HK\$188.69 million or 88% as compared with approximately HK\$215.33 million in FY2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

During the Reporting Period, the overall gross profit of the Group was approximately HK\$47.06 million (FY2021: HK\$115.70 million) which comprised approximately HK\$58.43 million (FY2021: HK\$73.86 million) from the Cigarette Packaging Business, gross loss of HK\$11.68 million (FY2021: gross profit HK\$36.54 million) from Environmental Treatment Business, and HK\$0.31 million (FY2021: HK\$5.30 million) from other business.

During the Reporting Period, the overall gross profit margin was 24% which was decreased by 5% as compared with 29% in FY2021. This was mainly due to a gross loss from the Environment Treatment Business because few new ecological restoration project was generated and additional costs were also incurred in maintenance works for the existing projects in FY2022. The gross profit margin of the Cigarette Packaging Business was approximately 35% decreased by 5% as compared with 40% in FY2021. The decrease in gross margin was due to increase in price of raw materials in the year.

Distribution Cost

The distribution cost of the Group in the Reporting Period was amounted to approximately HK\$0.62 million represented a decrease of approximately 13%, in line with the decrease of sale, as compared with approximately HK\$0.71 million in FY2021.

Administrative Expenses

The Group's administrative expenses for the Reporting Period was approximately HK\$49.19 million (FY2021: HK\$49.94 million), decreased slightly 2% or approximately HK\$0.75 million.

Net impairment losses on financial and contract assets

During the Reporting Period, net impairment losses on financial and contract assets was approximately HK\$28.41 million, representing an increase of approximately HK\$19.99 million as compared to HK\$8.42 million for FY2021, which was mainly a result of higher credit risk for specific customers in agency services.

Other Losses – Net

During the Reporting Period, the total other losses – net of the Group were approximately HK\$27.18 million (FY2021: HK\$10.59 million) which was resulted from the unfavourable condition of the securities market. The Group recorded a gain of approximately HK\$1.06 million from dividend income (FY2021: HK\$1.78 million) and a loss of approximately of HK\$28.43 million on disposal and unrealised losses on changes in fair value of financial assets at fair value through profit or loss (FY2021: HK\$11.73 million). The Group recorded a gain from foreign exchanges of approximately HK\$0.19 million (FY2021: loss of HK\$0.65 million) which were resulted from the fluctuation of Renminbi against Hong Kong dollars.

Finance Income – Net

During the Reporting Period, the finance income – net of the Group primarily consisted of interest income on certain non-derivative wealth management products, bank deposits, interest expenses on borrowings and lease liabilities. Net financial income was approximately HK\$0.06 million (FY2021: HK\$1.62 million).

Taxation

During the Reporting Period, income tax credit was approximately HK\$4.91 million, as compared to tax expense of HK\$11.19 million in FY2021. The Group's indirect wholly owned subsidiaries, Shantou Xinda Colour Printing & Packaging Material Company Limited was granted preferential tax rate at 15%.

MANAGEMENT DISCUSSION AND ANALYSIS

(Loss)/Profit attributable to owners of the Company

During the Reporting Period, the Group recorded a loss attributable to owners of the Company of approximately HK\$53.11 million, representing a decrease of approximately HK\$90.11 million or approximately 244%, as compared to a net profit after tax of approximately HK\$37.00 million for the year ended 31 December 2021.

Dividends

The Board does not recommend the payment of any final dividend for the year ended 31 December 2022 (FY2021: Nil).

Financial assets at FVPL

The Group adopted a prudent attitude in its securities investments. The management takes into account of risk exposure in comparison with the Group's risk tolerance level at the prevailing time and the potential for return on investment in terms of capital appreciation and dividend payment when determining whether to take up an investment opportunity for the cash held by the Group. The fair value of the listed securities are determined with reference to the quoted market prices available on the relevant stock exchanges. During the Reporting Period, the total loss of the Group from the listed securities was approximately HK\$27.36 million market (FY2021: HK\$9.95 million), including loss on changes in fair value of HK\$28.43 million (FY2021: HK\$11.73 million) because of volatility in the securities market. The management invests in these shares expecting the price will be stable and gradually increase in line with the upward trend of the securities market in the PRC and Hong Kong.

As at 31 December 2022, the financial assets at fair value through profit or loss held by the Group are as follow:

| | 31 December 2022 | | 31 December 2021 | |
|--|------------------|-----------------|------------------|-----------------|
| | Number of shares | Amount HK\$'000 | Number of shares | Amount HK\$'000 |
| Equity securities listed in Hong Kong: | | | | |
| Sunac China (1918) | 400,000 | 1,080 | 400,000 | 4,712 |
| BABA-SW (09988) | 30,000 | 2,588 | 30,000 | 3,567 |
| Tencent (0700) | 5,000 | 1,586 | 5,000 | 2,217 |
| Other equity securities (Note 1) | | 3,744 | | 5,764 |
| Equity securities listed in the PRC: | | | | |
| Guangdong Liantai (聯泰環保 603797) | 1,260,972 | 7,792 | 1,260,972 | 10,765 |
| Guangdong Tonze Electric (天際股份 002759) | 1,255,200 | 22,805 | 730,000 | 26,161 |
| Other equity securities (Note 2) | | 12,551 | | 14,572 |
| | | 52,146 | | 67,758 |

Note: (1) Other listed equity securities comprised 5 equity securities listed in Hong Kong (31 December 2021: 4).

(2) Other listed equity securities comprised 8 equity securities listed in the PRC (31 December 2021: 6).

MANAGEMENT DISCUSSION AND ANALYSIS

Capital structure, liquidity and financial resources

At 31 December 2022, the Group had net assets of HK\$361.26 million (FY2021: HK\$450.82 million); a working capital surplus of HK\$254.71 million (FY2021: surplus HK\$405.89 million).

As at 31 December 2022, the Group's total cash and restricted cash balances amounted to approximately HK\$91.23 million (31 December 2021: HK\$115.14 million) including restricted cash of HK\$43.96 million (31 December 2021: HK\$44.54 million) and cash and cash equivalent HK\$47.27 million (31 December 2021: HK\$70.60 million).

The following table sets forth the cash flows for FY2022 and FY2021:

| | FY2022 HK\$'000 | FY2021 HK\$'000 |
|--|--------------------|--------------------|
| Net cash generated from operating activities | 54,891 | 38,836 |
| Net cash used in investing activities | (93,518) | (16,825) |
| Net cash generated from/(used in) financing activities | 20,234 | (58,353) |
| Net decrease in cash and cash equivalents | (18,393) | (36,342) |
| Cash and cash equivalents at beginning of year | 70,599 | 103,281 |
| Effect change in exchange rate | (4,936) | 3,660 |
| | 47,270 | 70,599 |

Borrowings and gearing ratio

As at 31 December 2022, the Group's bank borrowings which secured by personal guarantee provided by the controlling shareholder of the Group were approximately HK\$22.39 million (RMB20.00 million) repayable in one year (31 December 2021: Nil).

The Group's gearing ratios is calculated as net borrowings divided by total capital. Net borrowings are calculated as borrowings plus lease liabilities less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the financial statements plus net borrowings. No gearing ratio was presented as the Group had net cash surplus as at 31 December 2022 (31 December 2021: same).

Exposure to fluctuation in exchange rate

The Group's transactions for our principal subsidiary in the PRC were mainly conducted in Renminbi ("RMB"), the functional currency of the subsidiary, and the major receivables and payables are also denominated in RMB.

The Group's exposure to foreign currency risk was primarily related to certain cash and bank balances, financial assets at FVPL, trade receivables, other receivables and other payables and accruals denominated in HK\$. Presently, the Group has no hedging policy with respect to the foreign exchange exposure.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital expenditure

During the Reporting Period, the Group's total capital expenditure amounted to approximately HK\$69.47 million (FY2021: HK\$6.24 million), which was used in the acquisition of property, plant and equipment, intangible assets, investment properties, prepayments for non-current assets and right-of-use assets.

Charge on assets

As at 31 December 2022, the Group placed cash deposits of approximately HK\$43.96 million (31 December 2021: HK\$44.54 million), which comprised deposits of HK\$38.84 million (31 December 2021: HK\$42.97 million) as collateral for the Group's notes payable and deposits of HK\$5.12 million (31 December 2021: HK\$1.57 million) as performance guarantee letter deposits, which were all denominated in RMB.

Contingent liabilities

The Group had no contingent liabilities as at 31 December 2022 (31 December 2021: Nil).

Capital commitments

As at 31 December 2022, the Group had capital commitments for the amount of approximately HK\$4.42 million (31 December 2021: HK\$1.34 million) for acquisition of property, plant and equipment.

FUTURE OUTLOOK AND PROSPECTS

Looking ahead, following the relaxation of the PRC government restriction policies from the pandemic, it is expected to have a growth in 2023. However, competition in both Cigarette Packaging Materials Business and Environmental Treatment Business are still quite fierce. The Group will firmly adhere to its strategic direction. We will continue to focus on our existing customers' requirements and solidify its traditional businesses and explore new business related to environmental protection industry.

Cigarette Packaging Business is still the main source of revenue of the Group. We will continue to enhance the relationship and maintain an excellent reputation with our existing customers and also seek for new customers to expand our share in the cigarette packaging materials market.

After the changes in the COVID-19 pandemic control measures, the PRC government will continue its policies to create a better environment and also promote green development and the harmonious coexistence of man and nature. It will serve as a guidance for the future development of the Environmental Treatment Business. Looking forward, with the support of our solid technical background, the Group will dedicate more resources to seek for new sewage treatment projects to widen our revenue streams. The management will continue to explore the development opportunity in ecological restoration projects so as to increase its market share, and continue to contribute to the Group.

Management of the Group will continue to adhere to the concentric and diversified development strategy. We will continue to seek business opportunities and persist in its own business strategy to create more value for our Shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 31 December 2022, the Group employed a total of 295 (31 December 2021: 329) permanent employees in the PRC and Hong Kong. Total employee remuneration (including directors' emoluments and benefits) in the Reporting Period amounted to HK\$43.16 million (FY2021: HK\$42.38 million). The Group provided its employees with competitive remuneration packages which were determined by their performance, qualification, experience and will continue to review with reference to the level and composition of pay and general market condition. In addition to basic salary, employees are entitled to other benefits including social insurance contributions, employee provident fund schemes and discretionary incentive.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The AGM is scheduled to be held on 16 June 2023. The register of members of the Company will be closed from 13 June 2023 to 16 June 2023, both days inclusive, for the purpose of identifying Shareholders who are entitled to attend the AGM, during which no transfer of Shares will be registered. In order to qualify for attending the AGM, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 12 June 2023.

MATERIAL ACQUISITION AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group has no material acquisitions or disposals of subsidiaries and associated companies in the Reporting Period.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. ZHENG Andy Yi Sheng, aged 62, was appointed as a Director on 29 April 2013 and re-designated as an executive Director, chairman of the Board and chief executive officer and chairman on 24 July 2013. He is also the chairman of the nomination committee and corporate governance committee of the Company. Mr. Zheng is the founder of the Company and has over 20 years of experience in the packaging material industry. Since 1992, he has been the director of Shantou Xinda Packing Colour Printing & Packaging Material Company Limited (“**Shantou Xinda**”) and became our chairman since 1997. Mr. Zheng was awarded a fellowship of Asian College of Knowledge Management in 2013. Mr. Zheng is the elder brother of Mr. Zheng Minsheng, an executive director of the Company and the father of Mr. Zheng Kevin Xiao Lin, the project manager of the Company.

Mr. ZHENG Minsheng, aged 59, was appointed as an executive Director on 24 July 2013 and is the deputy general manager of our Group. He is also a member of the corporate governance committee. Mr. Zheng has over 20 years of experience in the packaging material industry. Since 1992, he has been a director and deputy general manager of Shantou Xinda and is responsible for procurement of raw materials, production management and quality control. Mr. Zheng is the younger brother of Mr. Zheng Andy Yi Sheng, an executive Director, chairman of the Board and chief executive officer of the Company and the uncle of Mr. Zheng Kevin Xiao Lin, the project manager of the Company.

NON-EXECUTIVE DIRECTOR

Mr. HAO Jiming, aged 76, was appointed as a non-executive Director on 15 April 2019. Mr. Hao obtained a Bachelor of Civil Engineering from the Tsinghua University in 1970, majoring in water supply and sewage engineering and graduated with a Master degree in engineering from Tsinghua University in 1981. In 1984, Mr. Hao obtained a Doctorate degree in Civil and Environmental Engineering Department from the University of Cincinnati, the United States of America. Mr. Hao was elected as a member of the Chinese Academy of Engineering in 2005 and a foreign member of National Academy of Engineering of the United States America in 2018. Since 1970, Mr. Hao had been working at Tsinghua University as lecturer, associate professor and full professor. He has served as the Dean of the Research Institute of Environmental Science and Engineering since 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAU Kwok Hung, aged 76, was appointed as an independent non-executive Director on 24 July 2013. He is the chairman of the audit committee and remuneration committee of the Company and a member of the nomination committee and corporate governance committee of the Company. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and formerly, was a fellow of the Association of Chartered Certified Accountants and an associate member of the Chartered Institute of Management Accountants. Mr. Lau holds a Senior Executive Master Degree in Business Administration from Charles Darwin University. He also obtained a Diploma in Insolvency issued by the Hong Kong Institute of Certified Public Accountants and an Executive Diploma in International Business Valuation issued by the School of Professional and Continuing Education of the University of Hong Kong. He has extensive experience in financial accounting, auditing, taxation, company secretarial matter and corporate finance, especially in mergers, acquisitions and corporate restructuring. Mr. Lau is currently an independent non-executive director of Mayer Holdings Limited (stock code: 1116).

Mr. FOK Po Tin, aged 63, was appointed as an executive Director of the Company on 24 July 2013. Mr. Fok holds a Bachelor's degree in Business Administration with Honours from the Chinese University of Hong Kong and a Bachelor's degree in Laws from the Beijing University. He is a practicing solicitor of the High Court of Hong Kong and is the principal of Henry Fok & Company, Solicitors. Mr. Fok, who has over twenty years of extensive experience as a solicitor of general practice, is very familiar with commercial law. He was previously an executive director and chairman of Sunway International Holdings Limited a company listed on the Main Board of the Stock Exchange of Hong Kong (Stock code: 0058) from July 2020 to December 2021.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. CAI Xiaowen, aged 51, was appointed as an independent non-executive director on 1 April 2020. He is the member of the audit committee and remuneration committee. Mr. Cai holds a Bachelor degree in Law from Huaqiao University. He also holds and a Master degree in Law from Southwest University of Political Science and Law and a Master of Common Law from The University of Hong Kong in 2004. Mr. Cai was also awarded a Doctor of Philosophy in Law (Procedural Law) from Macau University of Science and Technology. Mr. Cai was qualified as a lawyer in the People's Republic of China. He was the Vice President and Risk Control Director of Yihua (Enterprise) Group Co., Ltd. ("**Yihua Group**"). Yihua Group is the controlling shareholder of Yihua Life Technology Co., Ltd. (Shanghai Stock Exchange Stock code: 600978) and Yihua Health Medical Co., Ltd. (Shenzhen Stock Exchange Stock Code: 000150). Currently, Mr. Cai is working as a lawyer in the PRC, an arbitrator at Shantou Arbitration Commission, the Supervisor of Master of Laws of Jinan University and a tutor at School of Political Science and Law of Guangdong University of Technology.

SENIOR MANAGEMENT

Mr. HUANG Bongde, aged 60, joined the Group in December 2013, as the general manager of the Group. Mr. Huang holds a degree in Bachelor of Business Administration from University of Management & Technology (Virginia) and Executive Master of Business Administration (EMBA) from Sun Yat-sen University, Guangzhou. He has over twenty years in business management experience in several various well-known hotel management groups companies in the PRC.

Mr. LI Zhiyong, aged 61, is the deputy general manager of Shantou Xinda. Mr. Li has worked in the Group since September 1995 and is responsible for all marketing activities. Mr. Li graduated from Shantou Commercial Bureau Staff Amateur Secondary School.

Mr. LI Cancheng, aged 42, joined the Group in August 2006. He is the factory manager of Shantou Xinda. He is responsible for tipping paper processing, printing and packaging manufactory. Mr. Li has been a drawing designer in Shantou Zhaohua Electric Company Limited during the period between 1999 and 2006. Mr. Li completed a course in economic management in South China University of Technology in July 2005. Mr. Li has been awarded the qualification of intermediate economist in human resources by Ministry of Human Resources and Social Security of the People's Republic of China in January 2010.

Mr. ZHENG Xiao Lin, Kevin, aged 35, is currently the project manager of the Company. Mr. Zheng joined the Company in 2015. His primary domains of responsibility include engaging in Company strategic planning, managing daily operations, and superintending various projects undertaken by the Company, assessing key performance metrics. Mr. Zheng obtained his double Bachelor's degrees in Commerce and Media & Communications at University of Melbourne, Australia in 2011 and a Master's degree in Management at Worcester Polytechnic Institute, Massachusetts, USA. He is currently an associate of the Hong Kong Institute of Chartered Secretaries. Mr. Zheng is the son of Mr. Zheng Andy Yi Sheng, an executive director, chairman of the Board and chief executive officer of the Company and the nephew of Mr. Zheng Minsheng, an executive director of the Company.

Mr. TANG Jinhai, aged 49, joined the Group in July 2013 as the financial controller of Shantou Xinda. Mr. Tang was graduated from Huazhong University of Science & Technology (formerly known as Huazhong Polytechnic University) in 1996. Mr. Tang is a CICPA registered under Guangdong Provincial Institute of Certified Public Accountants and has over ten years of experience in assurance works and more than seven years in financial management.

Mr. YU Wing Cheung, aged 65, is the chief financial officer, the company secretary and the authorized representatives of the Company. He joined the Group in November 2013 and is primarily responsible for overall financial management and company secretarial affairs. Mr. Yu obtained a Bachelor degree of Business Administration from Hong Kong Metropolitan University (formerly known as The Open University of Hong Kong). He is a member of The Hong Kong Institute of Certified Public Accountants and has over 20 years of experience in accounting, financial management and company secretarial practice. Prior to joining us, he had worked in other companies listed in Hong Kong and Singapore.

CORPORATE GOVERNANCE REPORT

The Group strives to attain and maintain high standards of corporate governance best suited to the needs of its businesses and the best interests of its stakeholders as the board of directors of the Company believes that effective governance is essential to the maintenance of the Group's competitiveness and to its healthy growth. The Company has adopted and applied the principles of the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The Board of Directors

The Board currently comprises two executive Directors, namely Mr. Zheng Andy Yi Sheng and Mr. Zheng Minsheng; one non-executive Director, namely Mr. Hao Jiming; and three independent non-executive Directors, namely, Mr. Lau Kwok Hung, Mr. Fok Po Tin and Mr. Cai Xiaowen. During the Reporting Period, the Board has at all times complied with rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules.

The Directors have brought a balance of valuable and diversified business and professional expertise, experiences and independent judgement to the Board for its sufficient and effective management of the Company's business.

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" in this report which demonstrate a diversity of skills, experience and qualification.

Roles and Responsibilities of the Board

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibility for decision making in all major matters of the Company including: the approval and monitoring of all policy matters, the setting of objectives, annual budgets and overall strategies, material transactions (in particular those which may involve conflict of interests), appointment of Directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support of them to discharge its responsibilities.

All Directors have full and timely access to all relevant information as well as the advice and services of the professional advisers, as and when required, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

The Company has arranged appropriate liability insurance for the Directors and the senior management of the Group to indemnify their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

The Chairman and Chief Executive Officer, Zheng Andy Yi Sheng, is responsible for setting the overall business strategies and management and ensuring the Board is functioning properly. He is also responsible for managing the Group's business, including implementing the Group's strategies, making day-to-day decisions.

The deputy general manager, Mr. Zheng Minsheng, is responsible for managing business operation, including procurement, production management, quality control. The independent non-executive Directors are independent of the management of the Group's business. They are professionals with substantial experience in accounting, banking, finance management, legal and business. The mix of skills and business experience is a major contribution to the future development of the Company. They ensure the Company maintains a high standard of financial and legal reporting and provide checks and balances to safeguard the interests of the shareholders.

CORPORATE GOVERNANCE REPORT

Board Diversity

During the year, the Company adopted a Board Diversity Policy (the “**Policy**”) which sets out the approach to diversify the Board. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional and industry experience, skills, knowledge, and any other factors that the Board might consider relevant and applicable.

The Nomination Committee has set the measurable objectives based on gender, age, cultural and educational background, professional experience and skills and knowledge for the implementation of Board diversity of the Company. The Nomination Committee and the Board will review the Policy, as appropriate, to ensure its continued effectiveness from time to time.

Having reviewed the Policy and taken into account the measurable objectives, the Nomination Committee and the Board considered that the Board’s composition has complied with the requirement of the Policy during the year.

Relationship amongst Directors

Mr. Zheng Minsheng is the younger brother of Mr. Zheng Andy Yi Sheng.

Save as aforesaid, the Board members do not have any financial, business, family or other material and/or relevant relationship with each other.

Non-executive Directors and Independent Non-executive Directors

The non-executive Director and the independent non-executive Directors give the Board the benefit of their skills, expertise, varied background and experiences. Through active participation in Board meetings and serving on various Board Committees, the non-executive Director and the independent non-executive Directors bring in independent judgment and make valuable contributions to the effective direction and strategic decision-making of the Group.

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 considered all the independent non-executive Directors to be independent. One of the independent non-executive directors possesses appropriate professional qualifications or accounting or related financial management expertise as required under the Listing Rules.

Appointment and re-election of Directors

The Board retains the functions for the selection and approval of candidates to become Board members. Under the Memorandum and Article of Associations of the Company, all Directors who are appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. In addition, one-third of the Directors, who have been longest on the Board since their last election, must retire from office by rotation but then be eligible for re-election at each annual general meeting of the Company. As such, no Director has a term of appointment longer than three years.

Professional Development of the Directors

In compliance with the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development (the “**CPD**”) to develop and refresh their knowledge and skills. Upon appointment to the Board, Directors receive an induction package covering the general understanding of the Group and its businesses and operations. Meetings are also arranged with the Company’s external legal adviser on Directors’ legal role and responsibilities. The Directors were kept informed on a timely basis of major changes on the relevant laws, rules and regulations.

CORPORATE GOVERNANCE REPORT

The Directors are encouraged to participate in CPD to develop and refresh their knowledge and skills for discharging their duties and responsibilities as Directors. The records of the Directors participated in the continuous professional development programs during the years are as follows:

| Name of Director | Attending training courses, seminars or conference | Reading materials or updates |
|-------------------------|--|------------------------------|
| Mr. Zheng Andy Yi Sheng | | ✓ |
| Mr. Zheng Minsheng | | ✓ |
| Mr. Hao Jiming | ✓ | ✓ |
| Mr. Lau Kwok Hung | ✓ | ✓ |
| Mr. Fok Po Tin | ✓ | ✓ |
| Mr. Cai Xiaowen | ✓ | ✓ |

BOARD MEETINGS

The Board normally has four regular meetings a year and meets as and when required to discuss the overall business, development strategy, operations and financial reporting of the Company. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's articles of association. During the year ended 31 December 2022, five (5) Board meetings and one general meeting were held.

The attendance of each Director at the Company's general meetings and regular Board meetings held during the year ended 31 December 2022 was as follows:

| Name of Director | Meeting attended/held | |
|-------------------------|-----------------------|------------------------|
| | Regular Board Meeting | Annual General Meeting |
| Mr. Zheng Andy Yi Sheng | 5/5 | 1/1 |
| Mr. Zheng Minsheng | 5/5 | 1/1 |
| Mr. Hao Ha Jiming | 2/5 | 1/1 |
| Mr. Lau Kwok Hung | 5/5 | 1/1 |
| Mr. Fok Po Tin | 2/5 | 1/1 |
| Mr. Cai Xiaowen | 2/5 | 1/1 |

BOARD COMMITTEES

The Board has delegated various responsibilities to the Board committees including the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**"), and the nomination committee (the "**Nomination Committee**") and the corporate governance committee (the "**CG Committee**") (collectively, the "**Board Committees**") to oversee particular aspects of the Company's affairs. All committees are established with defined written terms of reference setting out their respective authorities and duties, which are available on the Company's website. The committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee is currently chaired by Mr. Lau Kwok Hung, with Mr. Fok Po Tin and Mr. Cai Xiaowen as members. All of them are independent non-executive directors who possess the relevant qualifications, experiences and skills to contribute to the financial, governance, internal controls and risk management of the Company.

The main duties of the Audit Committee include reviewing the financial statements and reports and considering any significant or unusual financial items; overseeing the relationship between the Company and the external auditors; and reviewing the adequacy and effectiveness of the Company's internal control. Details of the authority and duties of the Audit Committee are on the Company's website.

During the year ended 31 December 2022, the Audit Committee held two meetings, inter alia, to review the final results for the year ended 31 December 2021 and the interim results for the six months ended 30 June 2022 of the Group and to review the Group's internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function. During year ended 31 December 2022, the Audit Committee met the external auditor twice without the presence of the management to discuss any areas of concerns.

Members and their attendance are as follows:

| Name of Directors | Meeting Attendance/held |
|---------------------------------------|-------------------------|
| Mr. Lau Kwok Hung (<i>Chairman</i>) | 2/2 |
| Mr. Fok Po Tin | 2/2 |
| Mr. Cai Xiaowen | 2/2 |

Remuneration Committee

The Remuneration Committee is currently chaired by Mr. Lau Kwok Hung, with Mr. Fok Po Tin and Mr. Cai Xiaowen as members. All of them are independent non-executive Directors. The Remuneration Committee is mainly responsible for making recommendations on and approving the remuneration policy and structure and remuneration packages of the Executive Directors and the senior management of the Group. Details of the authority and duties of the Remuneration Committee are available on the Company's website.

During the year ended 31 December 2022, the Remuneration Committee convened one meeting to review the remuneration package of the Directors and senior management.

Members and their attendance are as follows:

| Name of Directors | Meeting Attendance/held |
|---------------------------------------|-------------------------|
| Mr. Lau Kwok Hung (<i>Chairman</i>) | 1/1 |
| Mr. Fok Po Tin | 1/1 |
| Mr. Cai Xiaowen | 1/1 |

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee is currently chaired by Mr. Zheng Andy Yi Sheng, the chairman of the Board, with two independent non-executive Directors, Mr. Lau Kwok Hung and Mr. Fok Po Tin as members.

The Nomination Committee is responsible for, amongst other things, identifying individuals suitably qualified to become Board members, considering the re-appointment of Directors, reviewing the Board's diversity policy and relevant implementation of the diversity policy, and making recommendations to the Board in respect of the aforesaid matters. Details of the authority and duties of the Nomination Committee are available on the Company's website.

During the year ended 31 December 2022, the Nomination Committee convened one meeting to review the structure, size, composition and diversity of the Board and to consider, nominate and recommend re-appointment of Directors.

Members and their attendance are as follows:

| Name of Directors | Meeting Attendance/held |
|---|-------------------------|
| Mr. Zheng Andy Yi Sheng (<i>Chairman</i>) | 1/1 |
| Mr. Lau Kwok Hung | 1/1 |
| Mr. Fok Po Tin | 1/1 |

Corporate Governance Committee

The CG Committee is currently chaired by Mr. Zheng Andy Yi Sheng, the chairman of the Board, with the executive Director Mr. Zheng Minsheng and the independent non-executive Director, Mr. Lau Kwok Hung as members.

The CG Committee is responsible for, amongst other things, to evaluate and review the Company's policies and practices on corporate governance and make recommendation to the Board; review and monitor the training and continuous professional development of Directors and senior management; and monitor the Company's policies and practices on compliance with legal and regulatory requirement on corporate governance matters of our Group. Details of the authority and duties of the CG Committee are available on the Company's website.

During the year ended 31 December 2022, the CG Committee convened one meeting to review the structure, size, composition and diversity of the Board and to consider, nominate and recommend re-appointment of Directors.

Members and their attendance are as follows:

| Name of Directors | Meeting Attendance/held |
|---|-------------------------|
| Mr. Zheng Andy Yi Sheng (<i>Chairman</i>) | 1/1 |
| Mr. Zheng Minsheng | 1/1 |
| Mr. Lau Kwok Hung | 1/1 |

The Company periodically reviews its corporate governance practices to ensure its continuous compliance with the CG Code. In the opinion of the Directors, the Company was in compliance with the applicable code provisions of the CG Code for the year ended 31 December 2022 and, where appropriate, the applicable recommended best practices of the CG Code, save and except for the following deviations:

CORPORATE GOVERNANCE REPORT

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Zheng Andy Yi Sheng is the chairman and chief executive officer of the Company. In view of the scale of operations of the Company and the fact that daily operations of the Group's business is delegated to the senior executives and departments heads, the Board considers that vesting the roles of both chairman and chief executive officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

Code Provision C.1.2

Pursuant to Code Provision C.1.2, management should provide all members of the board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13. During the period under review, the management of the Company did not provide monthly updates to all members of the Board as required by the code provision C.1.2, as all the executive Directors were involved in the daily operation of the Group and were fully aware of the performance, position and prospects of the Company, and the management has provided to all Directors (including Independent Non-executive Directors) of the Board periodically updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail prior to the regular board meetings of the Company. In addition, the management has provided all members of the Board, in a timely manner, updates on any material changes to the performance, position and prospects of the Company and sufficient background or explanatory information for matters brought before the Board.

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. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2022.

ACCOUNTABILITY AND AUDIT

Directors' responsibility for the financial statements

The Directors acknowledge their responsibilities to prepare consolidated financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Group and that of the results and cash flows in the relevant financial year. In preparing the financial statements for the year ended 31 December 2022, the Directors have selected appropriate accounting policies, applied them consistently in accordance with appropriate International Financial Reporting Standards, International Accounting Standards and the related interpretations, and made adjustments and estimates are prudent and reasonable. The Directors' responsibilities for preparing consolidated financial statements are set out in the Independent Auditor's Report on pages 56 to 60. The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue its operational existence for the foreseeable future and thus it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

Auditor's remuneration

The Audit Committee has been notified of the nature and service charges of the non-audit services performed by PricewaterhouseCoopers and considered that such services have no adverse effect on the independence of their audit works. A summary of audit and non-audit services provided by PricewaterhouseCoopers for the period under review and their corresponding remuneration is as follows:

| Nature of services | Amount HK\$ '000 |
|---|---------------------|
| Audit service for the year ended 31 December 2022 | 1,955 |
| Others (including agree-upon procedures of preliminary announcement of annual results and other non-audit services) | 372 |

RISK MANAGEMENT AND INTERNAL CONTROL

The Board, recognising its overall responsibility in ensuring the risk management and internal control systems of the Group and reviewing its effectiveness, is committed to implementing an effective and sound risk management and internal control systems to safeguard the interests of the shareholders and the assets of the Group.

The Group has an established internal control structure and is committed to evaluating, enhancing and maintaining the structure to ensure effective control over the Group's business operations and to safeguard the value and security of the Group's assets. There is a clearly defined operating structure with lines of responsibilities and delegated authority in place to assist the Board to maintain a proper control environment. An organisation structure with clearly defined lines of responsibility, authority and accountability. Procedures have been designed to (i) safeguard assets from inappropriate use; (ii) maintain proper accounting records; (iii) ensure compliance with applicable laws, rules and regulations; and (iv) manage the risk of failure to achieve business objectives.

The risk management and internal control systems of the Group provide a reasonable, but not absolute, assurance that material misstatement of the financial statements are prevented, potential interruption of the Group's management system is detected, and risks existing in the course of arriving at the Group's objectives are properly managed. It could only manage, rather than eliminate, all risks of material misstatement, errors, loss or fraud.

Self-evaluation will be conducted annually to confirm that the Company has properly complied with the risks and internal control policies. The annual internal control review covered major activities and material controls (including operational, financial, compliance and risk management) of the Group's business and service units. A report on the result of assessment and recommendations was provided to the Audit Committee and the Board. Based on the results of internal audit reviews and the assessment thereon, no significant irregularities or deficiency in the risk management and internal control systems were drawn to the attention of the Audit Committee and the Board, but appropriate recommendations for further enhancing the internal control systems have been taken. During the year ended 31 December 2022, the Board has conducted a review of the effectiveness of the internal control system of the Group and considered the internal control system to be effective and adequate.

CORPORATE GOVERNANCE REPORT

DIVIDEND POLICY

The Company's dividend policy enunciated at the time of initial public offering in 2013 is that it will pay not less than 35% of any net consolidated distributable profit to the Shareholders as dividend. The Board has no present intention to change the policy. However, the declaration, payment and amount of dividends will be subject to the Board's discretion and will consider a number of factors, including but not limited to:

- (i) the actual and expected financial performance of the Group;
- (ii) the retained earnings and distributable reserves of the Company;
- (iii) the liquidity positions of the Group;
- (iv) the future cash requirements and availability of the Group, including its expected working capital requirements, capital expenditure requirements and future expansion plans; and
- (v) any other factor that the Board may consider appropriate.

The Board will review the dividend policy on a regular basis.

CHANGE IN CONSTITUTIONAL DOCUMENTS

In order to comply with the latest requirements under the Listing Rules, a special resolution of the Shareholders was passed on 2 June 2022 to adopt the second amended and restated memorandum and articles of association of the Company. The second amended and restated memorandum and articles of association of the Company is available on the websites of the Stock Exchange and the Company.

COMPANY SECRETARY

Mr. Yu Wing Cheung, the company secretary of the Company, has complied with the training requirement under Rule 3.29 of the Listing Rules.

SHAREHOLDERS

Communications with Shareholders

The Board recognizes the importance of continuing communications with the Shareholders and investors, and maintains ongoing dialogues with them through various channels. The formal communication channels between the Company and the Shareholders are announcements, circulars, press releases and interim and annual reports. All Shareholders' communications are available on the Company's website. An up-to-date consolidated version of the Articles of Association is available on the websites of the Company and the Stock Exchange.

Shareholders are encouraged to participate in annual general meetings and other general meetings of the Company which provide a useful forum for the Shareholders to exchange views with the Board. The Board members and management of the Company are available to answer Shareholders' questions and explain the procedures for demanding and conducting a poll, if necessary.

CORPORATE GOVERNANCE REPORT

Shareholders' rights

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. Besides, pursuant to the Company's Articles of Association, shareholder(s) holding not less than 10% of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board or the Company Secretary. The objects of the meeting must be stated in the written requisition.

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

An up to date version of the Articles of Association is available on the Company's website and the Stock Exchange's website. Shareholders may refer to the Company's Articles of Association for further details of their rights.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.huaxihds.com.hk) immediately after the relevant general meetings.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

BOARD OF DIRECTORS STATEMENT

Huaxi Holdings Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**” or “**We**”) are well aware of the importance of effective environmental, social and corporate governance (“**ESG**”) initiatives at the operational level. In pursuit of industrial development, excellent product quality, and high-quality services, we have incorporated the standards and requirements of the environmental philosophy, environmental management, and community contribution. The Group strives to strengthen and apply environmental technologies to our actual production activities, and focuses on collaboration with professional organizations and institutions at home and abroad, all of which ensure the Group’s business development is in compliance with the regulations and requirements of the jurisdiction where our business operates with regard to green environmental protection and sustainable development.

The direction of the Company’s ESG work is regulated by the board of directors of the Company (the “**Board**”). The Board is authorized to set up an ESG group to handle ESG matters in a comprehensive manner and is responsible for supervising the control of environmental protection indicators by the subsidiaries under the Group during the production and operation. The ESG management group will coordinate and proceed with the work of the Company’s sustainable development in line with the relevant laws and regulations, clarify management objectives, and continue to improve the management of ESG matters and risks. It will also ensure that the Board is informed of ESG management objectives, plans, implementation status and risks treatment through regular reporting to guarantee the effectiveness of ESG management, so as to reflect the Company’s core values. While the Board and the management work together to improve the value and performance of the Company, they also assume responsibility for assessing and identifying risks associated with environmental, social and governance matters, and ensuring that relevant risk management and internal control systems operate properly and effectively.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

BASIS FOR PREPARATION

This report is prepared in accordance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and in strict compliance with the principles namely “materiality, quantitative, balance and consistency” required in the guidelines. Among which, the section with regard to corporate governance is included in the Corporate Governance Report on Pages 13 to 21 of this report. Data as disclosed in this report is derived from the in-house statistics and analysis of the Group.

REPORTING SCOPE AND BOUNDARY

The scope of this report covers the two wholly-owned subsidiaries of the Company: Shantou Xinda Colour Printing & Packaging Material Co. Ltd. (“**Xinda Colour Printing**”), which mainly engages in manufacturing and sales of cigarette-related packaging materials, and Shantou Hongdong Environmental Treatment Company (“**Hongdong Treatment**”), which mainly engages in environmental and ecological restoration treatment business.

This report contains information in relation to the Company’s management policies and strategies of environmental, social and governance during the twelve-month period from 1 January 2022 to 31 December 2022 (the “**Reporting Period**”), details of which are set out in the relevant sections of this report.

REVIEW STATEMENT

The Board is fully responsible for formulating, monitoring, and disclosing relevant measures and key performance indicators. In business practice, the Board and the ESG management group review the implementation of ESG management objectives in accordance with internal control and review procedures on a regular basis, and optimize and adjust them in a timely manner to ensure the completion of ESG management objectives, and ensure the accuracy and reliability of the information and data presented as much as possible.

The members of the ESG management group and relevant departments held the 2022 ESG reporting meeting on 1 March 2023. This report was submitted to the corporate governance committee of the Company for review with appropriate modifications after the meeting, and was reviewed and endorsed by the Board on 29 March 2023.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS AND MATERIALITY ASSESSMENT

The Group continues to establish a diversified communication channel with stakeholders (including shareholders, customers, employees, suppliers, regulators and the public) to safeguard their interests and ensure the achievement of long-term corporate development objectives by maintaining a close relationship.

The stakeholder groups, their expectations and their communication channels with the Company are as follows:

| Stakeholder | Expectation | Contact and Communication |
|-------------|---|---|
| Shareholder | <ul style="list-style-type: none"> Effective management and operational model Sound internal financial management procedures Efficient operating cost and risk control capability Timely and accurate disclosure of important corporate information Sustainable and steady growth of corporate business Sustainable and steady growth of stock price and dividend | <ul style="list-style-type: none"> General meeting Appointment of international-branded audit firms as the auditor of the Group Results briefing Investor conference Regular and timely announcement and report Disclosure of major investment (project) Publication and communication via corporate website |
| Employee | <ul style="list-style-type: none"> Stable work cycle Competitive salary Ambitious development platform High standard working environment Harmonious working atmosphere Comprehensive employee benefits Occupational health protection | <ul style="list-style-type: none"> Employee representative meeting and conference Signing labour contracts and purchasing social insurance and commercial insurance for employees Paying housing provident fund for employees Targeted capacity training and development mechanism Provision of a safe and certified working environment Festival care and activities for employees Regular employee medical examination and provision of safety guidelines for work |
| Customer | <ul style="list-style-type: none"> Quality products and services Clear service standards Strict compliance with terms of contracts with customer Stringent customer rights protection | <ul style="list-style-type: none"> Entering into agreements with customers Maintaining good communication with customers Building a strict quality traceability mechanism Establishing corporate brand guarantee |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

| Stakeholder | Expectation | Contact and Communication |
|---------------------------------------|--|--|
| Government and Regulatory Authorities | Local laws and regulations compliance Obliging supervision and inspection measures Timely reporting Paying taxes levied as required Corruption-free business behavior Bearing the social responsibility of a Hong Kong listed company | Compliance with laws and supervision Proactive payment of tax payables Proactively participating in relevant meetings and seminars |
| Supplier | Long-term and stable partnership Guaranteed stable payment Promoting industry development and communication | Supplier periodic assessment and data enhancement Establishment of a purchasing price inquiry and comparison system Development of a code of integrity cooperation Proactively participating in industry association related activities Collaboration with universities and advanced research institutions |
| Community and Public | Organizing and participating in community improvement activities Promoting long-term social development Charity | Tree-planting and emission reduction |

After communicating with stakeholders and based on an overall assessment of the relevance/importance to the Company, we have identified the following issues as significant to the Group:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENT

A1: Emissions

The Group is in strict compliance with relevant laws and regulations in relation to environmental protection and pollution control:

Emission Standard of Volatile Organic Compounds for Printing Industry (《印刷行業揮發性有機化合物排放標準》) (DB44/815-2010) in Guangdong Province — Table 2 limit of average emission from printing in the second time period.

Wastewater discharge standards

- Integrated Wastewater Discharge Standards GB8978-1996 (《污水綜合排放標準GB8978-1996》) in the PRC and Water Pollutant Discharge Standards DB44/26 (《水污染物排放標準DB44/26》) in Guangdong Province

Exhaust gas emission standards

- Integrated Emission Standards of Air Pollutants GB16297-1996 (《大氣污染物綜合排放標準GB16297-1996》) in the PRC and Emission Standards of Air Pollutants DB44/27 (《大氣污染物排放標準DB44/27》) in Guangdong Province
- Emission Standard of Volatile Organic Compounds for Printing Industry (《印刷行業揮發性有機化合物排放標準》) (DB44/815-2010) in Guangdong Province — Table 2 limit of average emission from printing in the second time period

Noise emission standards

- Class III regional standards applicable to industrial areas under the Standard of Noise at Boundary of Industrial Enterprises GB12348-90 (《工業企業廠界噪音標準GB12348-90》) in the PRC
- Class IV regional standards applicable to the areas on both sides of the inland waterway flowing through cities under the Standard of Environmental Noise of Urban Area GB3096-1993 (《城市區域環境噪聲標準GB3096-1993》) in the PRC



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Wastewater discharge policy

Xinda Colour Printing

1. No wastewater is generated by Xinda during the production. The wastewater is mainly domestic sewage, which is treated by sewage treatment facilities and then discharged in compliance with the regulations.
2. Strengthen the daily maintenance of sewage treatment facilities to ensure that the indicators of domestic sewage after treatment meet the specified requirements.
3. Wastewater pipes and rainwater pipes are strictly separated, and discharge of wastewater into rainwater pipes is prohibited.
4. Waste oil, waste chemicals and other items that will cause material harm to the environment are not allowed to be poured into the sewer; instead, they must be properly stored in special containers and be collected by the designated cooperative unit of the office.
5. Supervisors of all departments shall strengthen the training of employees, and prohibit the discharge of waste and residue into the sewer (such as various wastes, soil and garbage).
6. The equipment department shall clean the wastewater pipes and rainwater pipes once a year.

Hongdong Treatment

1. Does not operate large-scale industrial equipment, and there is no wastewater generated during the production process.
2. The wastewater produced in the daily living is mainly kitchen wastewater, which is treated by the kitchen filter equipment and then discharged into the wastewater pipes.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Exhaust gas emission policy

Xinda Colour Printing

1. The equipment department is responsible for the installation of emission treatment equipment on site for equipment in each workshop which exhausts a large amount of gas and has greater impacts on the environment to ensure compliance of exhaust gas emissions with regulatory requirements.
2. The office shall be responsible for the annual review of all corporate vehicles to ensure compliance of exhaust gas emissions with regulatory requirements.
3. The third-party authorities are entrusted to conduct measurement with indicators of exhaust gas emissions once a year.

Hongdong Treatment

1. Does not operate large-scale industrial equipment, and there is no exhaust gas generated during the production process.
2. The Company shall carry out annual review on all public vehicles to ensure tail gas emission is qualified.

Noise control policy

Xinda Colour Printing

1. Equipment that generates a louder noise in workshops shall be sound-proofed and shock-proofed by the equipment department in line with standards of noise at boundary.
2. When the noise in the workshop exceeds the level prescribed for the purpose of labour protection, the supervisor of the workshop shall get labour protection appliance from the office to provide necessary auditory protection measures to the employees, and be responsible for supervising the implementation.
3. The office shall be responsible for conducting measurement with indicators of noise emissions once a year.

Hongdong Treatment

Self-developed equipment such as aerators is equipped with silencers in design. Silencer cotton and silencer strips for noise reduction are equipped for large-scale all-in-one wastewater treatment equipment to effectively mitigate noise emissions. We also strictly controlled the equipment's operation time to avoid bothering residents' rests.

A1.1 Types of exhaust emissions

Xinda Colour Printing

The production activities of Xinda Colour Printing did not directly generate exhaust gas emissions, but some of the production materials such as solvent will volatilize to produce benzene and total volatile organic compounds (TVOCs). At present, all the production workshops and production facilities of the Group are equipped with exhaust gas collection and treatment devices for instantaneous pollution emissions collection to deal with source of pollution. The collected exhaust gas will be burned through RTO waste treatment system, which significantly reduces harmful substances and will be discharged only after passing the inspection by a third-party qualified organization and meeting the relevant environmental protection standards. Meanwhile, The Emergency Response Plan for Environmental Emergencies (《突發環境事件應急預案》) formulated by Xinda Colour Printing has passed expert's review and filed with relevant government departments.

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| Types of exhaust | Emission Standard of Volatile Organic Compounds for Printing Industry (《印刷行業揮發性有機化合物排放標準》) (DB44/815-2010) in Guangdong Province | |
|--------------------|--|--|
| | Third-party inspection index on Xinda Colour Printing in 2022 (unit: emission concentration, mg/m ³) | (unit: emission concentration, mg/m ³) |
| VOCs | 16.1 | 120 |
| Benzene | 0.0048 | 1 |
| Toluene and Xylene | 0.0152 | 15 |

Hongdong Treatment

Hongdong Treatment did not generate exhaust gas emissions during operation and production.

A1.2 Greenhouse gas emissions

Carbon Dioxide Emissions

| Carbon Dioxide | Xinda Colour Printing 1 January to 31 December 2022 (Unit: tonne) | Hongdong Treatment 1 January to 31 December 2022 (Unit: tonne) | Total (tonne) | Total 1 January to 31 December 2021 (Unit: tonne) |
|-------------------------|---|---|-----------------|--|
| Liquefied Petroleum Gas | 28.00 | – | 28.00 | 9.94 |
| Electricity | 3,393.00 | 1,759.34 | 5,152.34 | 6,893.16 |
| Gasoline | 21.50 | 31.23 | 52.73 | 52.18 |
| Diesel | 5.10 | 20.07 | 25.17 | 35.22 |
| Total | 3,447.00 | 1,780.55 | 5,258.24 | 6,990.5 |

* 1kilowatt-hour electricity ≈ 0.997kg CO₂; 1kg liquefied petroleum gas ≈3.1013kg CO₂; 1L gasoline ≈ 2.3kg CO₂; 1L diesel ≈ 2.63kg CO₂.

Emissions mainly include carbon dioxide emissions from equipment and transportation in the production and business processes of enterprises, as well as carbon dioxide emissions generated in the daily living of corporate staff (such as kitchens and staff dormitory water heaters). In 2022, due to the impact of the epidemic, the business volume of Xinda Colour Printing shrunk, the reducing in the number of projects under construction and operation and maintenance by Hongdong Treatment has led to a corresponding decrease in electricity consumption and a corresponding decrease in CO₂ emissions. In addition, due to the reducing of projects, the diesel consumption of engineering vehicles also reduced accordingly.

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If the production volume in 2023 remains at the level of 2022, the Group will commit to reducing carbon dioxide emissions by 1%.

Nitrogen Oxide Emissions

| Nitrogen Oxide Emissions | Xinda Colour Printing 1 January to 31 December 2022 (Unit: tonne) | Hongdong Treatment 1 January to 31 December 2022 (Unit: tonne) | Total (tonne) | Total 1 January to 31 December 2021 (Unit: tonne) |
|---------------------------------|--|---|----------------------|--|
| Gasoline | 0.2008 | 0.2865 | 0.4873 | 0.2202 |
| Diesel | 0.0144 | 0.0687 | 0.0831 | 0.0108 |
| Total | 0.2152 | 0.3552 | 0.5704 | 0.2310 |

* 1L of gasoline produces 21.1g of nitrogen oxides; 1L of diesel produces 9g of nitrogen oxides.

Sulfur Oxide Emissions

| Sulfur Oxide Emissions | Xinda Colour Printing 1 January to 31 December 2022 (Unit: tonne) | Hongdong Treatment 1 January to 31 December 2022 (Unit: tonne) | Total (tonne) | Total 1 January to 31 December 2021 (Unit: tonne) |
|-------------------------------|--|---|----------------------|--|
| Gasoline | 0.0028 | 0.0040 | 0.0068 | 0.0031 |
| Diesel | 0.0125 | 0.0595 | 0.0720 | 0.0094 |
| Total | 0.0153 | 0.0635 | 0.0788 | 0.0124 |

* 1L of gasoline produces 0.295g of sulfur oxides; 1L of diesel produces 7.8g of sulfur oxides.

If the production volume in 2023 remains at the level of 2022, the Group will commit to reducing the emissions of nitrogen oxides and sulfur oxides by 1%.

Xinda Colour Printing

It plants trees in the factory area every year to promote greening and reduce emissions. Employees are encouraged to share a ride whenever possible to reduce the total amount of vehicles used.

Hongdong Treatment

It encourages employees to use shared bicycles and electric vehicles in the daily operations of project surveys and inspections of drainage points, etc., to reduce the use of cars, motor vehicles, and other means of transport that generate emissions.

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A1.3 Hazardous waste discharge

Xinda Colour Printing

It generated solid wastes such as waste activated carbon, waste ink residue in the production process. In 2022, the use of waste ink residue increased due to the testing of new technology and new material.

Hongdong Treatment

It did not generate any hazardous solid waste during its daily operation.

| Name of Solid Waste | Xinda Colour Printing 1 January to 31 December 2022 (Unit: tonne) | Hongdong Treatment 1 January to 31 December 2022 (Unit: tonne) | Total (tonne) | Total 1 January to 31 December 2021 (Unit: tonne) |
|------------------------|---|---|---------------|---|
| Waste Activated Carbon | 2.054 | – | 2.054 | 2.37 |
| Waste Ink Residue | 2.500 | – | 2.500 | 0.4 |
| Total | 4.554 | – | 4.554 | 2.77 |

A1.4 Non-hazardous waste discharge

| Name of Non-hazardous Waste | Xinda Colour Printing 1 January to 31 December 2022 (Unit: tonne) | Hongdong Treatment 1 January to 31 December 2022 (Unit: tonne) | Total (tonne) | Total 1 January to 31 December 2021 (Unit: tonne) |
|------------------------------|---|---|---------------|---|
| Waste Empty Drums | 1.45 | – | 1.45 | 1.50 |
| Waste Rags | 0.05 | – | 0.05 | 0.05 |
| Non-hazardous Domestic Waste | 19.53 | 6.50 | 26.03 | 26.51 |
| Total | 21.03 | 6.50 | 27.53 | 28.11 |

A1.5 Emission targets and steps

Emission targets: according to the data required by the relevant laws and regulations.

Steps: see A1

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A1.6 Waste reduction targets and steps

Non-hazardous waste:

They are mainly domestic waste, which are kitchen waste, and office waste. The waste are first sorted by its employees, put in designated place each day, and then collected and disposed of by property cleaning company, so as to keep the office environment clean and tidy.

Hazardous waste:

They are centrally stored in the hazardous waste warehouse, managed in accordance with the national Hazardous Waste Management Policy (《危險廢棄物管理制度》), and centrally handled by qualified recycling institutions entrusted by the Company.

Steps to be taken:

1. Strictly implement the Company's Energy-saving and Consumption-Reduction Control Regulations (《節能降耗控制規定》), encourage the recycling of waste materials and make the best use of them.
2. Strengthen the management and control of materials utilization. The production department shall control the consumption of materials within the budget or quota, and strengthen the supervision of materials utilization.

A2: Use of resources

Resources policy:

Electricity saving Measures

1. During machine overhaul, electric heat source, power source and air source are shut off.
2. During non-production period, power supply, air source and power of exhaust system of machine are cut off.
3. Do not turn on the air conditioners when the forecasted maximum temperature is below 28 degrees. Turn off air conditioners for 1 hour during office hours each day. Do not turn on the air conditioners when there is no one, and do not open the window when turning on the air conditioners.
4. The central air conditioning operation regulations are strictly implemented in the office. In summer, air-conditioning temperature shall be set above 26 degrees Celsius. The air conditioning system is turned off 30 minutes before going off duty in the evening.
5. When the weather is sunny and there are adequate light, indoor lighting are turned off to make full use of natural light. Do not turn on the lighting when there is no one, and turn off the lighting when going off duty. If there is no staff working overtime during lunch break, the indoor lighting are turned off.
6. Energy saving system is installed for elevators. Except when the corporate leaders are inviting guests to visit, the elevators in the factory area are not used to carry passengers. When there is no production in the workshop at night or holiday, the power of elevators will be shut down by the security guard.
7. Energy saving system is installed for office equipment. Power management of office equipment, such as computers, printers, copiers, fax machines and shredders, are strengthened by reducing standby power consumption, turning on while using and turning off after using and before going off duty.
8. The river regulation equipment shall be turned on regularly in strict accordance with business requirements, and shut down at unnecessary time to reduce standby energy consumption.

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Consumption reduction measures

1. Production materials are reviewed annually based on various indicators to reduce consumption.
2. The use of water-saving appliances is promoted. During washing, water flow is properly controlled and taps are turned off readily. Leakage is timely reported for repairing.
3. We take advantage of the rainy characteristic in the Southern region where its factory located to collect rainwater through the park's landscape pool. The collected rainwater is filtered and used for circulating cooling water of equipment, fire-protection water and daily irrigation water.

Environmental protection policy

1. Waste material management

- (1) Recyclable or reusable waste material are collected by designated personnel of the Company, stored in designated place, and disposed of and sold in a centralized manner.
- (2) Non-recyclable waste material: those that will pollute the environment are placed in designated place, and disposed of in a centralized manner.

2. Other

- (1) When purchasing materials, apparatus and office equipment, priority is given to energy-saving equipment or products with low energy consumption and national certification, and high-energy equipment or products that are prohibited nationally are eliminated.
- (2) Digitalized office is encouraged. Whenever possible, documents are revised on electronic media and information is transmitted via Internet, so as to reduce consumption of paper and enable paperless office. Paper for the document should be used on both sides. Give priority to the reuse of used envelopes and copy paper. Double-sided printing should be adopted whenever possible. Ink and toners of printers, copies and all-in-one machines should be refilled after being used up, to improve reuse rate.
- (3) The Group encourages employees to eliminate disposable tableware and reuse recyclable cups and cutlery with disinfection measures in place.
- (4) Some of the reusable shipping containers and packaging will be recycled and reused by employees. Traditional glues are replaced with benzene-free glues which are more environmentally friendly.
- (5) Leveraging on rainy conditions in South of China, Xinda Colour Printing collected and filtered rainwater for fire services and irrigation use. Hongdong Treatment advocated civilized construction, and minimise the impact on environment in the course of construction.
- (6) The Company should delegate duties of energy conservation and consumption reduction to departments and positions. The corresponding loss-saving assessment and annual evaluation will be conducted.
- (7) Various means are used to spread knowledge of energy conservation and consumption reduction, cultivate all employees' awareness of resource concerns and good habits of diligence and thrifty, and create a sound atmosphere of "conservation by everyone for everything everywhere".

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A2.1 Total Energy Consumption and Density

Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).

| Type of Energy | Unit | Xinda Colour Printing 1 January to 31 December 2022 | Hongdong Treatment 1 January to 31 December 2022 | Total | 1 January to 31 December 2021 Total |
|-------------------------|-----------|--|---|------------|--|
| Electricity | Degree/Kw | 3,403,065.00 | 1,764,634.00 | 51,679,699 | 6,902,669.74 |
| Liquefied Petroleum Gas | Kilogram | 9,002.00 | – | 9,002.00 | 9,940 |
| Gasoline | Litre | 9,518.57 | 13,571.40 | 23,089.97 | 28,956.97 |
| Diesel | Litre | 1,600.00 | 7,633.91 | 9,233.91 | 11,877.31 |

In order to reduce energy consumption, the Group fully uses LEDs to save daily electricity consumption, adjusts the automatic opening and closing time of factory lighting according to the sunshine duration, and controls the air conditioner's temperature at 26°C during summer.

Due to a decrease of projects, Hongdong Treatment recorded a decreased consumption of electricity, gasoline and diesel.

A2.2 Water Consumption

| Unit | Xinda Colour Printing 1 January to 31 December 2022 | Hongdong Treatment 1 January to 31 December 2022 | Total | 1 January to 31 December 2021 Total | |
|-------------------------|--|---|-------|--|--------|
| Total Water Consumption | Ton | 25,095 | 4,779 | 29,874 | 31,276 |

Xinda Colour Printing has been targeting to conserving water use and enhancing water use efficiency, and put the concept of water conservation into practice by collecting rainwater to irrigate plants. Hongdong Treatment does not require a lot of water in its core business, and its water resources are mainly consumed by its employees at the worksite.

A2.3 Set energy use efficiency targets and steps to be taken

Steps: see A2 Policies for efficient use of energy.

A2.4 Set water use efficiency targets and steps to be taken

Steps: see A2 Water saving measures.

A2.5 Total packaging materials used in finished goods (in tonnes and where appropriate, per unit produced)

Xinda Colour Printing

During 2022, Xinda Colour Printing adopted recyclable trays and protective paperboard as its main packaging materials, amounted to approximately 62 tonnes in total.

Hongdong Treatment

Hongdong Treatment is primarily engaged in construction business services, without any finished goods involved.

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A3: Environment and natural resources

A3.1 Description of the significant impacts of activities on natural resources and the actions taken to manage them.

The Group's business activities have no significant impact on natural resources, the policies taken for environment see A2 Environmental protection measures.

A4: Climate change

A4.1 Description of the major subsequent issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.

Typhoons and rainstorms are the main climate-related issues affecting the business because the Group's projects and businesses are carried out in regions along the southeast coast of China. Therefore, the Group has established corresponding emergency response.

Xinda Colour Printing

Typhoons and rainstorms have certain influence on the transformation of packaging materials of Xinda Colour Printing. Xinda Colour Printing keeps monitoring weather forecast and schedules deliveries on clear days as much as possible, and it also makes sufficient preparation of waterproof for the cargo and asks the transportation provider to emphasize the cargo protection.

Hongdong Treatment

Typhoons and rainstorms have certain influence on the project of Hongdong Treatment as they are primarily carried out outdoor. Hongdong Treatment keeps monitoring weather forecast to accelerate the construction progress during the dry season to avoid the typhoon and rainstorm days. Hongdong Treatment also proactively takes appropriate protective measures at the construction site in advance.

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B. SOCIAL

The Group understands that employees are the cornerstone and an important asset of the Group, as well as a key element in building a sustainable business model and creating long-term returns. Therefore, the Group attaches great importance to and safeguards the legitimate rights of employees, provides employees with promising career development opportunities, pays attention to the health and safety of employees, and expresses care and concern to employees, striving to create a comfortable and satisfactory working environment for its employees to grow together with the company.

B1: Employment

Recruitment and training

1. The Group conducts recruitment in an open and fair manner, pursuant to which, professional talents are recruited with reference to their education, experience, skills, qualifications and the requirements of the Group to achieve our objective of continuous innovation and evolution. In addition, the Group is in strict compliance with local laws and regulations governing employee recruitment.
2. The Group is committed to developing a fair working environment. In order to provide equal opportunities of promotion to each employee, the Group has a series of assessment procedures in place to assess the performance of each employee in a more comprehensive and objective manner before determining the employee to be promoted. We oppose any form of discrimination, and hiring and promotion opportunities will not be affected by candidates' physical disability. Therefore, disabled people will also have the opportunity to work and become self-reliant.
3. The Group has been in compliance with the requirements under the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and the Employment Ordinance (《僱傭條例》) of Hong Kong. Where any employee fails to perform his/her current position, such an employee will receive training or be transferred to another position. In case such an employee continues to fail the position, the Group will terminate the employment relationship in accordance with relevant laws and regulations.
4. The Group arranges various social insurance, such as pension insurance, medical insurance, unemployment insurance and work injury insurance, for employees in accordance with government regulations.

Remuneration

1. The employees of the Group come from various cities in provinces across China. Under the principle of equal pay for men and women at the same position, there is no geographical or gender discrimination. The Group is committed to providing opportunities and platforms for employees to tap into their potential, while their salary will be based on their professional knowledge, occupational skills and actual job performance.
2. The Group adjusts its remuneration package with reference to the overall performance of the Group and market conditions, which can motivate employees to continue to forge ahead.

Employees benefits

In accordance with the laws and regulations of mainland China and Hong Kong, the Group formulates fringe benefits for all employees based on the actual conditions of the Group, mainly including:

1. Social insurance (e.g. pension insurance, medical insurance, unemployment insurance) for employees;
2. Commercial accident insurance for employees engaged in frontline operation;
3. Monthly birthday party to celebrate employee birthdays;

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4. Corresponding bonuses and prizes based on corporate performance;
5. Holiday gifts and year-end prizes for employees based on corporate performance;
6. Necessary cooling medicines and drinks for employees;
7. Unscheduled employees group activities;
8. Regular medical examination for employees of special work types;
9. Necessary work uniforms for employees;
10. Accommodation and food or corresponding allowances for resident and project department employees.

Hongdong Treatment

Hongdong Treatment promulgated the Human Resource Management System (《人力資源管理制度》) and the Staff Handbook (《員工手冊》) to clarify the relevant regulations that employees should abide by, such as recruitment, promotion, attendance, integrity, rewards and punishments, and code of conduct.

B1.1 Total number of employees

Xinda Colour Printing

During the Reporting Period, all of the employees of the Company are stationed in China. As of 31 December 2022, the Company employed a total of 214 full-time employees, details of which are set out as follows:

| By age | Percentage | By gender | Percentage |
|--------|------------|-----------|------------|
| ≤ 25 | 0.94 | Male | 69.16 |
| 26–35 | 18.22 | Female | 30.84 |
| 36–45 | 37.85 | | |
| 46–55 | 30.84 | | |
| ≥ 56 | 12.15 | | |

Hongdong Treatment

During the Reporting Period, all of the employees of the Company are stationed in China. As of 31 December 2022, the Company employed a total of 64 full-time employees, details of which are set out as follows:

| By age | Percentage | By gender | Percentage |
|--------|------------|-----------|------------|
| ≤ 25 | 3.13 | Male | 79.69 |
| 26–35 | 48.44 | Female | 20.31 |
| 36–45 | 25.00 | | |
| 46–55 | 18.74 | | |
| ≥ 56 | 4.69 | | |

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B1.2 Employee turnover rate

Xinda Colour Printing

During the Reporting Period, Xinda Colour Printing has a total of 17 departed personnel, and details of age distribution are set out as follows:

| By age | Percentage | By gender | Percentage |
|--------|------------|-----------|------------|
| ≤ 25 | 0.00 | Male | 52.94 |
| 26–35 | 11.76 | Female | 47.06 |
| 36–45 | 23.53 | | |
| 46–55 | 23.53 | | |
| ≥ 56 | 41.18 | | |

Hongdong Treatment

During the Reporting Period, Hongdong Treatment has a total of 29 departed personnel, and details of age distribution are set out as follows:

| By age | Percentage | By gender | Percentage |
|--------|------------|-----------|------------|
| ≤ 25 | 0.00 | Male | 89.65 |
| 26–35 | 48.28 | Female | 10.35 |
| 36–45 | 13.79 | | |
| 46–55 | 31.03 | | |
| ≥ 56 | 6.90 | | |

B2: Health and safety

The Group attaches great importance to the physical and mental health of its employees and production safety and has been committed to improving the relevant standards and management level in this regard. The Group has set up a comprehensive occupational health and safety management system covering policy formulation, program planning, implementation and operation, inspection, correction and rectification, implementation results review and continuous improvement. Specific measures include:

1. Continuously improve the working and production environment, and increase funds allocated for protective equipment for safe production;
2. Provide employees with hygienic supplies such as masks and disinfectants during the period of pandemic prevention of COVID-19;
3. Hold regular safety production training every quarter to enhance employees' occupational health and safety mindset;
4. Strengthen the regular inspection and maintenance of mechanical equipment to ensure the safe operation of mechanical facilities;
5. Strictly control the employment of special operations personnel by checking the corresponding skills certificate and qualification certificate, and ensure that special operations are conducted strictly in accordance with relevant operational practices implemented by local governments;
6. Put up a standing healthcare cabinet to supply conventional prescription drugs and cooling products for bringing down temperature, and protect employees' health as much as possible;

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7. Regularly arrange employees for necessary occupational medical examinations to ensure the health of employees and prevent occupational diseases.

All subsidiaries of the Group have passed the Occupational Health and Safety Management System Certification (GB/T 45001-2020/ISO 45001:2018).

The Group strictly abides by national and local laws, regulations and practices, including but not limited to: the Occupational Disease Prevention Law of the People's Republic of China (《中華人民共和國職業病防治法》), Occupational Disease Prevention Plan of Guangdong Province (2017-2020) (《廣東省職業病防治規劃(2017-2020年)》), Environmental and Occupational Health and Safe Operation Control Procedures (《環境和職業健康安全運行控制程序》), Environmental and Occupational Health and Safety Monitoring and Measurement Procedures (《環境和職業健康安全監視和測量程序》) and Environmental and Occupational Health and Safety Measurement and Control Procedures (《環境和職業健康安全測量控制程序》).

B2.1 Number and rate of work-related deaths in the past three years

There were no work-related deaths of employees of the Group in the past three years (including the reporting year), and the rate of work-related deaths in the past three years is zero.

B2.2 Lost workdays due to work-related injury

There were no work-related injuries of the Group in the last year.

B2.3 Occupational health and safety measures adopted

Employees' health

1. The Company strictly complies with the governmental requirements for prevention and control of COVID-19, and ensures that employees are provided with a safe and hygienic working environment during their work.
2. A compliance team has been set up to take charge of occupational safety monitoring and measurement. Each department of the Company is responsible for assisting the monitoring and measurement work of the compliance team.
3. For special operations personnel, the Company conducts medical examination regularly, and arranges timely for transfers if adverse health conditions are found in examinations. Employees found to have occupational diseases will be immediately reported to the government administration department (generally, health Bureau or professional institution for occupational disease prevention and treatment) as required by the Occupational Disease Management Ordinance, and the patients will receive special treatment until recovery.
4. The compliance team monitors and measures occupational health and safety parameters based on relevant documents. Measurement includes: motor vehicle noise measurement and production equipment noise measurement, and the results are archived in the prescribed form.
5. Monitor the compliance of occupational health and safe operation control. Each department of the Company takes random inspection on its respective occupational health and safe operation control of the department to ensure that the operation of the department conforms to the requirements of relevant procedures and basic documents. The compliance team conducts random supervision and inspection of the operation control of each department. The results of inspection are recorded in the "Occupational Health and Safe Operation Inspection Record Form".
6. The compliance team analyses the historical evidence of accidents, diseases, incidents and other adverse occupational health and safety performance, and takes corrective and preventive measures based on the conclusions of analysis.

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Employees' safety

1. The production workshops are of a rational layout and kept clean and tidy. Protective equipment is provided for employees that involved in operations that may cause harm to body. In dangerous working places such as those under high temperature or humidity, effective protective measures must be taken correspondingly.
2. All kinds of equipment shall not be overloaded and abnormally operated, and shall be used correctly, maintained frequently, and overhauled regularly. Obsolete equipment that does not meet safety requirements should be replaced on a planned basis.
3. Electrical equipment and circuits should conform to relevant safety requirements. Electric equipment should have fusible insurance and leakage protection, with excellent insulation performance and reliable protection measures.
4. The transportation, storage, use, and disposal of flammable and explosive materials must be equipped with fireproof and explosion-proof facilities, and strict safety operation regulations must be implemented.
5. Employees should undergo training before taking up their jobs, and strengthen their work skills and quality and awareness of environment, occupational health and safety through on-the-job training. For those involved in special types of work must possess required work permits, and must undergo regular safety training and education.
6. The compliance team regularly arranges environmental and safety inspections in accordance with the Environmental and Occupational Health and Safety Measurement and Control Procedures (《環境和職業健康安全測量控制程序》).
7. Employees monitor and supervise each other, identify problems and risks in time, and put forward suggestions for improvement. During the Reporting Period, there were no work-related deaths or injuries of employees of the Group.

B3: Development and training

Training management

1. The Company has formulated the responsibilities and requirements of each position and regards these as the criteria for evaluation of employees.
2. Establish training management system to make the training work available.
3. When training is conducted, the training department fills in and submits the Training Implementation Record Form to the office in time.
4. After going out for training, participants are required to write a journal for the training experience, together with relevant training materials to be filed with the office.
5. Quality education or professional theoretical training shall be received from time to time outside or inside the Company.
6. New employees shall be trained (collectively or individually as entourage) before duty commence.

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7. Employees who have moved to different positions shall undergo new job training and pass the examination before duty commence. Scope of the examination shall generally cover quality safety, production safety and professional skills training.
8. The Company's employees have the right to participate in training, as well as the obligation to receive training and train others. In addition to requiring employees to actively and cooperatively participate in various trainings organized by the Company and all departments, the Company advocates and encourages employees to carry out autonomous learning in improving professional knowledge, skills and comprehensive quality.

B3.1/B3.2 The percentage/average training hours of employee trained by gender and employee category

During the Reporting Period, Xinda Colour Printing and Hongdong Treatment established a series of high quality skills training courses for employees at all levels to ensure that the Company is at the forefront of the industry in all aspects of management, production, safe operation and quality control.

Xinda Colour Printing

Xinda Colour Printing has provided training for not less than 596 employees this period, with a total training time of 30 hours.

Of the total trainees, 71% were male employees, with an average training time of 5.8 hours; while 29% were female employees, with an average training time of 6.2 hours.

Senior management trained accounted for 0.51% of the total trainees, with an average training time of 8.2 hours; while middle management trained accounted for 34% of the total trainees, with an average training time of 10.5 hours.

| Date | Training Program | Duration | Number of Participant |
|----------------|--|----------|-----------------------|
| January 2022 | Problem rectification training for product of Guangxi Zhenlong | 2 | 8 |
| February 2022 | Guangdong Tobacco Batch Management Training | 2 | 60 |
| March 2022 | Guangdong Tobacco Batch Management Training | 2 | 70 |
| April 2022 | Training on the replacement of Xianhe paper replaced with Hengfeng paper for | 2 | 70 |
| May 2022 | Material Factory Machine Safety Operation Training | 2 | 64 |
| July 2022 | Tipping Paper Factory Key Job Professional Skills Training | 2 | 53 |
| August 2022 | Tipping Paper Factory Machine Safety Operation Training | 2 | 54 |
| September 2022 | Quality Management Job Training | 4 | 11 |
| September 2022 | Training for New Employees | 2 | 9 |
| October 2022 | Material Factory Key Job Professional Skills Training | 2 | 64 |
| November 2022 | Equipment Management Training | 2 | 5 |
| December 2021 | Internal Auditor Training | 4 | 5 |

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Hongdong Treatment

Hongdong Treatment has provided training for not less than 56 employees this period, with a total training time of 320 hours.

Of the total trainees, 89.29% were male employees, with an average training time of 24.4 hours; while 10.71% were female employees trained, with an average training time of 18.5 hours.

Senior management trained accounted for 3% of the total trainees, with an average training time of 12 hours; while middle management trained accounted for 37% of the total trainees, with an average training time of 23.2 hours.

| Date | Training Program | Duration | Number of Participant |
|----------------|---|----------|-----------------------|
| January 2022 | Municipal Science and Technology Statistics Business Training | 2.5 | 2 |
| March 2022 | Continuing Education for Construction Engineers | 120 | 1 |
| | Renewal of Hi-tech Enterprise Recognition Due in 2022 and Special Online Training on Key Tasks and Difficulties | 3 | 5 |
| April 2022 | Promoting Meeting of Small and Medium-sized Sci-tech Enterprises in Guangdong Province | 2.5 | 3 |
| | Education and Training Activities on Work Safety in the First Half of 2022 (Operation and Maintenance of Production Sites in Sigou, Chaonan and Shiwan) | 1 | 21 |
| May 2022 | Continuing Education for Safety Officers | 24 | 1 |
| | Education and Training Activities on Work Safety in the First Half of 2022 (Shiwan and Yuanzhou) | 1 | 7 |
| June 2022 | Continuing Education for Safety Officers | 24 | 2 |
| | 2022 Interim Exchange and Training Meeting of Huaxi | 24 | 1 |
| August 2022 | 2022 Interim Exchange and Training Meeting of Huaxi | 4 | 6 |
| September 2022 | Continuing Education for Safety Officers | 24 | 1 |
| | Continuing Education for Accountants | 90 | 6 |

B4: Labour standards — prevention of child labour or forced labour

The Group strictly complies with the Labor Law (《勞動法》), Labor Contract Law (《勞動合同法》), Law on the Protection of Minors (《未成年人保護法》), Law on Protection of Rights and Interests of Women (《婦女權益保護法》) and other relevant laws and regulations, and formulates relevant internal rules and regulations to protect the legitimate rights and interests of employees.

B4.1 The Group strictly complies with Prohibition of Child Labour Provisions (《禁止使用童工規定》) of the People's Republic of China and other laws and regulations on labour standards. Background check was conducted for every new employee during the recruitment process to ensure compliance with laws and regulations in Mainland China and Hong Kong. During the Reporting Period, there are no major violations of laws and regulations in relation to child labour and forced labour.

B4.2 During the Reporting Period, there were no violations of child labor and forced labor. If such a violation is found, we will immediately organize human resources to verify it, properly handle the relevant personnel, and strictly prevent the recurrence of this situation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B5: Supply chain management

The Group stresses the importance to the mutually beneficial partnership with suppliers in the long term. By designing a survey and assessment system for suppliers' admission, we have established a list of qualified suppliers. We perform regular assessments on our suppliers in terms of their supply capacity, product quality, service, integrity, and many other areas, to ensure product quality. Suppliers are selected based on criteria such as product quality, pricing and delivery turnaround time. Suppliers with stable cooperation are prioritized. Furthermore, a pool of second-choice suppliers is selected from qualified suppliers to prepare for comparison of price, product quality and other aspects and alternative options for emergency procurement and supply.

B5.1 Number of suppliers

The details of the main suppliers of Xinda Colour Printing are as follows:

1 in Heilongjiang, 4 in Zhejiang, 3 in Shanghai, 5 in Jiangsu, 9 in Guangdong, 1 in Shaanxi

The details of the main suppliers of Hongdong Treatment are as follows:

7 in Guangdong, 2 in Zhejiang, 3 in Jiangsu, 1 in Shanghai, 1 in Shandong

B5.2 Management and supervision of suppliers

Criteria for supplier selection:

1. Assessment will be made as to suppliers' basic information, relevant qualification, business license, operation conditions and such other information;
2. Assessment will be made as to whether the standards of the raw material, products or services provided meet the purchase requirements of the Company;
3. Suppliers' product quality certification will be reviewed, and quality inspection report from the third party, transportation license, etc. will be verified;
4. Evaluation will be made as to suppliers' payment terms, product/service prices, delivery time and other aspects;
5. Selection will be made for the comparison among three or more suppliers to choose the best, if possible.

Review of suppliers:

All the major suppliers of the Group have met the Company's criteria for supplier selection and have been included in the Qualified Supplier List (《合格供應商名單》); they will be subject to annual supervision and review by the Group. The content of the review includes, but is not limited to, whether the basic enterprise information, product information, production technology equipment information, service quality, operation and maintenance continue to meet the requirements as a qualified supplier of the Group. The supplier will be graded by the procurement department in conjunction with the user department as A (80-100 points), B (60-79 points) and C (0-59 points) during the review. A rating of "A" will be included in the Qualified Supplier List or maintain their qualified supplier rating. When a supplier is found to have a problem during the review, the review team will notify such supplier in writing for rectification and make record thereof, and if necessary, downgrade the supplier. If the supplier passes the review after rectification, the original rating will be maintained. If the same problem occurs 3 times in a year, the supplier will be deemed as unqualified

During the Reporting Period, all the major suppliers have passed the review successfully.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B5.3 Practice of identifying environmental and social risk in the supply chain

1. When selecting suppliers, the Group gives priority to suppliers who have obtained certification under the Environmental Quality Standards System;
2. When selecting suppliers, Xinda Colour Printing will conduct factory inspections where available to ensure that their production environment meets the relevant safety and standards requirements;
3. In the subcontracting of labour services, Hongdong Treatment gives priority to suppliers with labour dispatch qualifications, and requires labour units to submit workers' information, purchase accident insurance for workers, provide necessary protective equipment, prohibit the use of child labour, forbid work in poor environmental condition and forbid overtime work, and carry out regular inspections.

B5.4 Practice of promoting the use of environmentally friendly products in selecting suppliers

1. The Group strives to maintain day-to-day communications with suppliers through online communication and electronic signatures to avoid additional transport emissions and paper waste;
2. In the selection of suppliers, the Group explicitly requires suppliers to comply with relevant national laws, regulations and standards in the production, obtain product production certificates, and have approval certificates and performance test reports issued by third-party quality inspection agencies. The Group checks whether the ingredients of the goods meet environmental protection requirements, especially for hazardous chemicals, these suppliers shall not only possess a safety production license but also a product transport certificate;
3. The Group requires that suppliers should actively carry out green and environmental protection activities in both the procurement and production environments and conduct regular inspections;
4. Xinda Colour Printing may reuse the raw material and product package from supplier transaction in order to reduce packaging consumption; In addition, agreements with suppliers are entered into to recover packaging or defective products, in order to avoid waste of raw materials.

B6: Product social responsibility

Being an enterprise with a strong sense of brand honour and corporate social responsibility, Xinda Colour Printing obtained the GB/T19001-2008 and ISO9001:2008 certification for its quality management system. The products delivered by the Company are all formulated with internal control standards in line with national standards, and are regularly tested by qualified testing institutions. All production operators need to undergo technical training, so that the operators can master the technical requirements of the process and operate only after they are qualified. During the production process, all production process control regulations shall be strictly implemented, including Process Control Procedure (《過程控制程序》), Product Identification and Product Traceability Control Procedure (《產品標識和產品可追溯性控制程序》), Control Process of Unqualified Product (《不合格品控制程序》), Raw Material, Semi-finished Products, Finished Products Protection Control Procedure (《原材料、半成品、成品防護控制程序》), Corrective and Preventive Action Control Procedure (《糾正和預防措施控制程序》), etc.. In addition, subject to a well-established system designed for product batches traceability, every product can be traced back to every stage of the whole production process to ensure the quality of the delivered goods. By reference to the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), our product quality is fully guaranteed from purchase of raw materials to production process, final product inspection and warehousing logistics. With regard to product quality assurance, the Company is always in pursuit of better, more comprehensive and more advanced technologies and methods and advancement. QR code technique for traceability management of some of our products had been adopted, which further improved the Company's quality monitoring system. At the same time, the Company is updating its online monitoring system to better control the quality of its products during the production process.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B6.1 Percentage of the product subject to recalls for health reasons

Xinda Colour Printing

The total products sold or shipped do not require to be recalled for safety and health reasons.

B6.2 Enterprise production quality verification process and product return

During the Reporting Period, the Group had no complaints regarding its services.

Coping method: once a complaint is received, the Group should organize manpower to investigate the situation immediately, and he/she should go to the site in the first time and assign someone to implement the investigation records, actively communicate and coordinate with the parties concerned to solve the problem, and take the corresponding measures.

B6.3 Practices relating to observing and protecting intellectual property rights

In order to protect the intellectual property rights of the Group, we have built various internal management systems such as the transformation of scientific and technological achievements and rewards for intellectual property rights, which has improved employees' awareness of innovation and provided a platform and guarantee for employees' R&D and intellectual achievements. In accordance with relevant laws and regulations of intellectual property rights, the Group actively applies for patents for the established intellectual achievements to ensure that the core technologies of the Group are protected by law and enhance its competitiveness in the market.

B6.4 Production quality verification and product return process

Xinda Colour Printing

1. Products quality should be monitored in the whole process of production, with ensuring real-time quality monitoring, raw materials, processing products, finished products should also be inspected in strict accordance with the Inspection Procedures (《檢驗規程》).
2. The quality management department is responsible for investigating complaints regarding quality problems, analysing the cause, formulating rectification plans, and tracking and giving feedback on the effectiveness of prevention. The quality management department will first investigate the cause of the complaint and trace the customer's goods, and fill in the Customer Complaint Handling Report (《顧客投訴處理報告》) after the incident is properly handled.
3. The marketing department is responsible for investigating and handling customer complaints regarding after-sale services and product delivery and giving feedback on the rectification measures. The marketing department is responsible for replying customers with the Customer Complaint Handling Report (《顧客投訴處理報告》) and forwarding the report to the relevant departments.
4. The technical centre is responsible for handling customer complaints regarding quality in collaboration with the quality management department, making improvements to technical issues, and giving feedback on the causes.
5. Products that have been approved to be returned are temporarily placed in a designated area, marked and isolated by the production workshop, which will notify the quality management department for re-inspection.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B6.5 Consumer privacy protection policy

1. Customer data should be under unified management in office, and a customer data ledger should be established.
2. Customer data should not be copied or disseminated without approval, taken away from the working area without authorization, and disclosed to the cooperative manufacturers by any means;
3. In external communication and cooperation, the use of customer data by employees shall be subject to the review and approval by the general manager;
4. When an employee is transferred from his/her current position or resigns, he/she shall return all customer data to the Company without any backup.

B7: Anti-corruption (prevention of bribery, extortion, fraud and money laundering)

All employees of the Group must have an in-depth understanding of bribery, extortion, fraud, corruption and related behavior. In order to address and reduce the risk of corruption, the Group has formulated a set of guidelines in connection with offer and receipt of gifts, provision of meals, accommodation and entertainment, and engagement with government officials, whereby stating permitted and prohibited actions to be taken by our employees in their daily business activities. This ensures that every employee is obliged to comply with applicable laws and regulations and to make ethical business decisions. To ensure that all business transactions with government officials are conducted without any form of corruption, the Group pays closer attention and enters into the honesty and law compliance agreement with each employee.

B7.1 During the Reporting Period, there were no lawsuits against the Group in relation to corruption.

The Group will continuously strive to achieve the target of no corruption complaints and no corruption litigations during the year.

- B7.2**
1. We formulate and promulgate Anti-fraud Policies and Procedures (《反舞弊政策和流程》), and set up anti-fraud mailboxes and special lines.
 2. We enter into the Integrity Commitment and Staff Handbook with newly recruited employees. Under the reporting procedure which is in the form of report, all employees have the right and obligation to report to their superior any corruption within the Company. The office is responsible for the execution and supervision of the matter.

B7.3 In order to reduce the risk of corruption, the Company specified the corresponding code of conduct and integrity requirements in the Staff Handbook (《員工手冊》), including corresponding guidelines on accepting & giving gifts and negotiating with suppliers, acceptable and unacceptable behaviors of the employees in life and work and the corresponding consequences, which ensures that every employee is obliged to comply with applicable laws and regulations and to make ethical business decisions, and also deepens their understanding in misconduct such as bribery, extortion, fraud and corruption. At the same time, the Company enters into the honesty agreement with each new employee.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B8: Community investment

The Group remains committed to community activities during its development, while encouraging its employees to actively participate in various volunteer and charitable activities. Over the past year, in light with the recurring Covid-19, the Group actively responded to the anti-epidemic policy by calling on its employees to reduce their participation in gathering activities, as well as providing necessary health protection and training for our employees on site and on business trip, and visitors.

In addition to its own environmental governance business, Hongdong Treatment actively assisted the emergency response of the owner unit to ensure the cleanliness of the river and its surrounding environment. Besides, Hongdong Treatment donated approximately RMB600,000 for the planting and maintenance of aquatic plants in the Shantou project, contributing to the construction of a beautiful water ecological environment. Meanwhile, Hongdong Treatment adjusted its business structure this year and introduced labor subcontracting companies to create more employment opportunities for labor subcontracting companies.

DIRECTORS' REPORT

The directors (the “**Directors**”) of Huaxi Holdings Company Limited (the “**Company**”) submit herewith their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The principal business activity of the Company is investment holding. The principal activities and other particulars of the Company’s subsidiaries set out in note 14 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2022 and the financial position of the Group as at 31 December 2022 are set out in the consolidated financial statements on pages 61 to 125 of this report.

DIVIDENDS

During the Reporting Period, the Board did not declare any interim dividend (Interim dividend of HK 4.00 cents per share for the six months ended 30 June 2021). The Board does not recommend the payment of final dividend (31 December 2021: Nil).

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting is scheduled to be held on 16 June 2023 (the “**AGM**”). The register of members of the Company will be closed from 13 June 2023 to 16 June 2023, both days inclusive, for the purpose of identifying Shareholders who are entitled to attend the AGM, during which no transfer of Shares will be registered. In order to qualify for attending the AGM, all transfers of Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong before 4:30 p.m. on 12 June 2023.

BUSINESS REVIEW

A review of the business and the analysis of the Group’s performance during the period using financial key performance indicators is provided in the Management Discussion and Analysis on pages 5 to 10 of this annual report.

MAJOR RISKS AND RISK MANAGEMENT

The following are the key risks that the Group considers to be of great significance to the Group in its current status. These risks may have adverse effect on the Group's business. The impact of risk relating to the business of the Group will change over time. The size, complexity and coverage of our business and the changing environment in which the Group operates also mean that the list cannot be an exhaustive list of all material risks that could affect the Group. The Group has been focusing on the control of risks and uncertainties with the aim of understanding and addressing the concerns of stakeholders.

Business Risk

The Group's business relies heavily in the PRC and faces business risks include economic and political risks, social environment, corporate responsibility and sustainability risks. The Board meets regularly and reviews the investment and expansion strategies, business plan, financial results, and key performance indicators of the Group to ensure that the business risks are controlled and managed, and potential risks can be identified.

Financial Risk

The Group has adopted financial risk management policies to control the Group's financial risk exposure, such as taxation risks, currency risks and financial reporting risks. Also, the Board monitors the financial results and key operating statistics with the assistance of the Group's finance department on a regular periodic basis.

Compliance Risk

The Group has adopted internal procedures to monitor the Group's compliance risk to ensure that the Group's compliance with the laws and regulations in regions which the Group conducts business. In addition, the Group from time to time engages consulting firms and professional advisers to keep the Group updated with the latest development in the regulatory environments.

Credit Risk

None of the Group's trade receivables and other receivables has any collateral. The Group has adopted policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

Operational Risk

The Group has adopted procedures to manage its operational risk exposures, such as human resources risks and IT governance risks. The Group monitors the overall employee turnover rate, degree of satisfaction, and IT system status on a monthly basis, and adopts countermeasures if any risk indicators arise.

The Group also faces other financial risk in the ordinary course of business, such as market risk, foreign exchange risk, cash flow and fair value interest rate risk, price risk, credit risk and liquidity risk. Details of financial risk management are set out in note 3 to the consolidated financial statements.

COMPLIANCE WITH LAWS AND REGULATIONS

As an entity incorporated in the Cayman Islands and listed in Hong Kong, the Company is mainly governed by the Companies Law (2016 revision) of the Cayman Islands, the Companies Ordinance (Cap. 622), the Securities and Futures Ordinance (Cap. 571), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") on the corporate level. The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules, and each of its committee has its own term of reference defining their respective rights, duties and obligation. During the year under review, to the best of the Directors' knowledge, there is no material breach of or non-compliance with applicable laws and regulations by the Group.

DIRECTORS' REPORT

FIVE-YEARS FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the last five financial years/period is set out on page 126 of this report. This summary does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

INVESTMENT PROPERTIES

The amount of Group's investment properties were HK\$15,234,000 (fair value: HK\$18,455,000). Details of movements during the year are set out in note 17 to the consolidated financial statements.

BANK BORROWINGS

Particular of borrowings of the Group are set out in note 30 to the financial statements.

SUBSIDIARIES

The details of the Company's principal subsidiaries as at 31 December 2022 are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

The details of movements in the Company's share capital during the year are set out in note 27 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

As at 31 December 2022, profit attributable to owners of the Company before dividends, of approximately HK\$167.83 million (31 December 2021: approximately HK\$172.44 million) have been transferred to reserves. The details of the movements during the period in the reserves of the Group are set out in the consolidated statement of changes in equity on note 35 of this report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2022, the aggregate revenue attributable to the Group's five largest customers accounted for approximately 99% (31 March 2021: 96%) and the largest customer accounted for approximately 44% (31 December 2021: 43%) of the Group's total revenue. The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 50% (31 December 2021: 54%) and the largest suppliers accounted for approximately 14% (31 December 2021: 25%) of the Group's total purchases.

At no time during the period have the Directors, their associates or any shareholders, who to the knowledge of the Directors own more than 5% of the issued share capital of the Company, had any interest in these major customers and supplier.

CONNECTED AND RELATED PARTY TRANSACTIONS

Material related party transactions entered into by the Group during the year ended 31 December 2022, which do not constitute connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") are disclosed in the note 34 to the consolidated financial statements.

DIRECTORS

Composition

The Directors during the financial year ended 31 December 2022 and up to the date of this report were/are:

Executive Directors

Mr. Zheng Andy Yi Sheng (*Chairman*)

Mr. Zheng Minsheng

Non-executive Director

Mr. Hao Jiming

Independent non-executive Directors

Mr. Lau Kwok Hung

Mr. Fok Po Tin

Mr. Cai Xiaowen

Biographical details of the Directors are set out on pages 11 to 12 of this annual report.

Pursuant to Article 108(a) of the Articles of the Association of the Company Mr. Zheng Andy Yi Sheng and Mr. Fok Po Tin shall retire by rotation at the AGM and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for transactions disclosed elsewhere in this annual report, no transactions, arrangements and contracts of significance in relation to the Group's businesses to which the Company or its subsidiaries was a party and in which a Director or controlling shareholders of the Company and the Director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existing during the year.

DIRECTORS' REPORT

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year, to the best knowledge of the Directors, none of the Directors and their respective associates was considered to have any interest in any business that competes with or is likely compete with the business of the Group, as defined in the Listing Rules.

The controlling shareholders (as defined in the Listing Rules) have confirmed to the Company of their compliance with the non-competition undertakings provided to the Company under a deed of non-competition dated 14 November 2013 (the "**Deed of Non-competition**").

The independent non-executive Directors have reviewed the compliance with the Deed of Non-competition by the controlling shareholders and confirmed that up to the date of this report, the Deed of Non-competition is fully complied with and duly enforced.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Particulars of the Directors' remuneration and five individuals with highest emoluments are set out in note 8 to the financial statements respectively.

RETIREMENT SCHEME

The Group participates in a state-managed retirement scheme operated by the PRC Government which covers the Group eligible employees in the PRC and operates a Mandatory Provident Fund under the Hong Kong Mandatory Provident Fund Schemes Ordinance for the employees under the jurisdiction of the Hong Kong Employment Ordinance.

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence to Rules 3.13 of the Listing Rules. The Company considers that all of the independent non-executive directors are independent.

SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was adopted pursuant to a resolution passed on 14 November 2013 for the purpose of providing incentives and rewards attracting and retaining the best available personnel, providing additional incentive to employees (full-time and part time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers ("**Eligible Participants**") of the Group and promoting the Success of the business of the Group and will remain on force for a period of ten years commencing on the adoption date and shall expire at 13 November 2023 subject to early termination provisions contained in the Scheme. The Board may grant options To Eligible Participants to subscribe for shares in the Company subject to the terms of the Scheme.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Shareholders. However the total maximum number of the shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Scheme and any other share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time. Options granted to a substantial shareholder or an independent non-executive Director, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of the grant) in excess of HK\$5 million, within any 12-month period up to and including the date of grant, are subject to Shareholders approval in advance in a general meeting.

Options granted must be taken up within 7 days inclusive of the day on which offer was made upon payment of HK\$1 by the grantee. Options may be exercised at any time for a period determined by its directors which shall not be later than the day immediately preceding the tenth anniversary of the date of grant. The exercise price of the share options shall be a price solely determined by the Board and notified to an Eligible Participant and shall be at least the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant of the options; (ii) the average closing price of the Company's shares as stated in the daily quotations sheets of the Stock Exchange for the five trading days immediately preceding the date of the grant of the option; and (iii) the nominal value of a share of the Company on the date of grant.

No outstanding share options under the Option Scheme was granted as at 31 December 2022 (31 December 2021: Nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2022, the interests and long positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in ordinary shares of the Company

| Name of Directors | Capacity/ Nature of interest | Number of ordinary shares held | Total | Percentage of the Company's issued share capital (Note (ii)) |
|---------------------------------------|--------------------------------------|--------------------------------------|-------------|--|
| Mr. Zheng Andy Yi Sheng (Note (i)) | Interest in a controlled corporation | 450,000,000 | 450,000,000 | 64.15 |
| Mr. Zheng Minsheng | Beneficial owner | 1,200,000 | 1,200,000 | 0.17 |
| Mr. Lau Kwok Hung | Beneficial owner | 400,000 | 400,000 | 0.06 |

Notes:

- (i) These 450,000,000 Shares are beneficially owned by SXD Limited and the entire issued share capital of SXD Limited was legally and beneficially owned by Mr. Zheng Andy Yi Sheng.
- (ii) The approximate percentage of interests held was calculated on the basis of 701,430,000 ordinary shares of the Company in issue.

Save as disclosed above, as at 31 December 2022, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2022, to the best knowledge of the Directors, the following persons had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register of the Company required to be kept under section 336 of the SFO:

Long positions:

| Name of shareholders | Notes | Capacity/Nature of interests | Number of ordinary shares held | Percentage of the Company's Issued share capital (Note (iii)) |
|-------------------------|-------|--------------------------------------|--------------------------------|--|
| SXD Limited | (i) | Beneficially owned | 450,000,000 | 64.15 |
| Mr. Zheng Andy Yi Sheng | (i) | Interest in a controlled corporation | 450,000,000 | 64.15 |
| Ms. Chan Annie Ni | (ii) | Interest of spouse | 450,000,000 | 64.15 |

Notes:

- (i) The entire issued share capital of SXD Limited was legally and beneficially owned by Mr. Zheng Andy Yi Sheng.
- (ii) Ms. Chen Annie Ni is the spouse of Mr. Zheng Andy Yi Sheng and was accordingly deemed to have an interest in the shares of SXD Limited.
- (iii) The approximate percentage of interests held was calculated on the basis of 701,430,000 ordinary shares of the Company in issue.

Save as disclosed above, the Company had not been notified by any other persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were entered in the register kept by the Company pursuant to section 336 of the SFO as at 31 December 2022.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and as far as the Directors are aware, the Company has maintained at least 25% of public float as at the latest practicable date prior to the issue of this annual report.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year ended 31 December 2022. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the “**Code**”) contained in Appendix 14 of the Listing Rules throughout the year except under the Code Provision A.2.1 and C.1.2. The full details of corporate governance practices adopted by the Company during the year ended 31 December 2022, or where applicable, up to the date of this report, are set out on pages 13 to 21 of this report.

AUDITORS

The consolidated financial statements for the year ended 31 December 2022 were audited by PricewaterhouseCoopers who retire and, being eligible, shall offer themselves for reappointment at the forthcoming AGM.

On Behalf of the Board

Zheng Andy Yi Sheng
Chairman

Hong Kong, 29 March 2023

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

To the Shareholders of Huaxi Holdings Company Limited

(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Huaxi Holdings Company Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 61 to 125, comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition from construction contracts
- Assessment of the expected credit losses of trade receivables and contract assets

| Key Audit Matters | How our audit addressed the Key Audit Matters |
|--|---|
| <p><i>Revenue recognition from construction contracts</i></p> <p>Refer to Note 2.21 for the accounting policy, Note 4.1 for the critical accounting estimates and judgments involved and Note 6 for the analysis of revenue from construction contracts.</p> <p>The Group recognised revenue from construction services of HK\$13,862,000 for the year ended 31 December 2022, representing approximately 7% of the Group's total revenue.</p> <p>The recognition of revenue from construction contracts is based on the progress of contract activities by reference to actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.</p> <p>Management's estimate of total contract revenue, budgeted costs and progress of the related contract work requires significant judgement.</p> <p>We focused on this area due to the significant judgement and estimate involved in determining the total contract revenue, budgeted costs and progress of the related contract work.</p> | <p>We performed the following procedures in assessing management's estimate of the total contract revenue, budgeted costs and progress of the related contract work:</p> <ol style="list-style-type: none">a. We understood, evaluated and validated management's key internal controls of the Group's budgeting process and cost accumulation process for contract projects. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and changes.b. We discussed with management the status of selected projects to identify any variation and claims for each project, and obtained explanations for fluctuations in margins. We obtained corroborative evidence by inspecting the correspondences with the customers and vendors.c. We inspected, on a sampling basis, the signed contracts and/or other supporting documents to obtain audit evidence on total contract sum.d. We tested, on a sampling basis, the actual costs incurred on contract work during the reporting period by examination of supporting documents, including purchase agreements, payment records, receipt notes of materials and labour cost records.e. We recalculated the progress of contract work based on the latest budgeted costs and total actual costs incurred.f. We tested the calculation of contract revenue based on the estimated progress of contract work. <p>Based on the procedures performed, we considered that management's judgement and estimates adopted in determining total contract revenue, budgeted costs and progress of the related contract work were supportable by available evidence.</p> |

INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Assessment of the expected credit losses of trade receivables and contract assets

Refer to Note 4.2 for the critical accounting estimates and judgments involved, Note 3.1 for analysis of credit risk, Note 22 for the analysis of trade receivables and Note 6 for the analysis of contract assets.

As at 31 December 2022, the Group had gross trade receivables of HK\$251,685,000 and gross contract assets of HK\$44,401,000 and provision for expected credit losses of trade receivables and contract assets of HK\$30,849,000 and HK\$50,000, respectively.

Management applied HKFRS 9 by using the simplified approach to measure the lifetime expected credit losses of trade receivables and contract assets. Impairment provision of trade receivables and contract assets was made based on an assessment of the risk of default and expected loss rates with reference to the credit rating of each customer group. Management also took into account forward-looking adjustments to expected credit losses.

We focused on this area because management's assessment on the expected credit losses of trade receivables and contract assets involved significant management estimates and judgements.

How our audit addressed the Key Audit Matters

We have performed the following procedures to address this key audit matter:

- a. We understood, evaluated and validated management's key controls in relation to the assessment of the expected credit losses of trade receivables and contract assets, including expected lifetime analysis and review on reasonableness of the key assumption and data involved in expected credit losses assessment. We assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity and changes.
- b. We evaluated the outcome of prior period assessment of the expected credit losses of trade receivables and contract assets by assessing the retrospective review performed by management, to assess the effectiveness of management's estimation process,
- c. With the support from our internal valuation experts, we assessed the appropriateness of customer group and the credit loss provisioning methodology adopted by management, assessed the reasonableness of the risk of default and expected loss rates by checking reasonableness of the assumptions and parameters used by management, assessed the appropriateness of the forward-looking adjustment made to the historical loss rates by considering our industry knowledge and macroeconomic information, and performed sensitivity analysis to address the estimation uncertainty related to the expected credit losses of trade receivables and contract assets.
- d. We checked the mathematical accuracy of the calculation of the allowance of expected credit losses.

Based on the procedures performed, we considered that management's estimates and judgements applied in the assessment of the expected credit losses of trade receivables and contract assets were supportable by available evidence.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chow Yam Kwok Damien.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Year ended 31 December | |
|--|------|------------------------|------------------|
| | | 2022 HK\$'000 | 2021 HK\$'000 |
| Revenue | 6 | 194,536 | 404,559 |
| Cost of sales | 7 | (147,480) | (288,860) |
| Gross profit | | 47,056 | 115,699 |
| Distribution costs | 7 | (624) | (707) |
| Administrative expenses | 7 | (49,189) | (49,935) |
| Net impairment losses on financial and contract assets | 3 | (28,412) | (8,418) |
| Other losses — net | 9 | (27,175) | (10,594) |
| Operating (loss)/profit | | (58,344) | 46,045 |
| Finance income — net | 10 | 64 | 1,618 |
| (Loss)/profit before income tax | | (58,280) | 47,663 |
| Income tax credit/(expense) | 11 | 4,910 | (11,188) |
| (Loss)/profit for the year | | (53,370) | 36,475 |
| (Loss)/profit attributable to: | | | |
| — Owners of the Company | | (53,107) | 36,996 |
| — Non-controlling interests | | (263) | (521) |
| | | (53,370) | 36,475 |
| Other comprehensive (loss)/income | | | |
| <i>Item that will not be reclassified to profit or loss:</i> | | | |
| Currency translation differences on translation to presentation currency | | (36,187) | 13,518 |
| Other comprehensive (loss)/income for the year, net of tax | | (36,187) | 13,518 |
| Total comprehensive (loss)/income for the year | | (89,557) | 49,993 |
| Total comprehensive (loss)/income attributable to: | | | |
| — Owners of the Company | | (89,847) | 50,734 |
| — Non-controlling interests | | 290 | (741) |
| | | (89,557) | 49,993 |
| (Losses)/earnings per share attributable to owners of the Company for the year (expressed in HK cent per share) | 12 | | |
| — Basic and diluted (losses)/earnings per share | | HK(7.57) cents | HK 5.27 cents |

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | <i>Note</i> | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|---|-------------|--|---------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 15 | 57,446 | 38,501 |
| Right-of-use assets | 16(i) | 6,693 | 9,820 |
| Intangible assets | 18 | 33 | 116 |
| Deferred tax assets | 19 | 9,852 | 7,563 |
| Investment properties | 17 | 15,234 | – |
| Prepayments for non-current assets | 20 | 24,763 | 978 |
| | | 114,021 | 56,978 |
| Current assets | | | |
| Inventories | 21 | 45,891 | 39,360 |
| Contract assets | 6(a) | 44,351 | 38,214 |
| Trade receivables | 22 | 220,836 | 391,054 |
| Prepayments and other receivables | 23 | 8,791 | 24,475 |
| Financial assets at fair value through profit or loss | 24 | 52,146 | 67,758 |
| Restricted cash at banks | 25 | 43,960 | 44,539 |
| Cash and cash equivalents | 26 | 47,270 | 70,599 |
| | | 463,245 | 675,999 |
| Total assets | | 577,266 | 732,977 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| <i>Note</i> | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|---|--|---------------------------------|
| EQUITY | | |
| Equity attributable to owners of the Company | | |
| Share capital | 27 3,508 | 3,508 |
| Other reserves | 28 223,675 | 260,415 |
| Retained earnings | 140,306 | 193,413 |
| | 367,489 | 457,336 |
| Non-controlling interests | (6,229) | (6,519) |
| Total equity | 361,260 | 450,817 |
| LIABILITIES | | |
| Non-current liabilities | | |
| Lease liabilities | 16(ii) 272 | 1,879 |
| Deferred tax liabilities | 19 7,200 | 10,170 |
| | 7,472 | 12,049 |
| Current liabilities | | |
| Trade and notes payable | 29 142,184 | 204,606 |
| Lease liabilities | 16(ii) 2,295 | 2,253 |
| Other payables and accruals | 31 24,317 | 38,584 |
| Current income tax liabilities | 17,349 | 24,668 |
| Borrowings | 30 22,389 | – |
| | 208,534 | 270,111 |
| Total liabilities | 216,006 | 282,160 |
| Total equity and liabilities | 577,266 | 732,977 |

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The financial statements on pages 61 to 125 were approved by the board of directors on 29 March 2023 and were signed on its behalf.

Zheng Andy Yi Sheng
Director

Zheng Minsheng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | Non-controlling interests HK\$'000 | Total HK\$'000 |
|------------------------------------|--|---|-------------------------------|-------------------|---------------------------------------|-------------------|
| | Share capital HK\$'000 (Note 27) | Other reserves HK\$'000 (Note 28) | Retained earnings HK\$'000 | Total HK\$'000 | | |
| Year ended 31 December 2021 | | | | | | |
| Balance at 1 January 2021 | 3,508 | 245,651 | 213,557 | 462,716 | (5,778) | 456,938 |
| Comprehensive income | | | | | | |
| — Profit for the year | – | – | 36,996 | 36,996 | (521) | 36,475 |
| — Other comprehensive income | – | 13,738 | – | 13,738 | (220) | 13,518 |
| Total comprehensive income | – | 13,738 | 36,996 | 50,734 | (741) | 49,993 |
| Dividends paid | – | – | (56,114) | (56,114) | – | (56,114) |
| Transfer to statutory reserves | – | 1,026 | (1,026) | – | – | – |
| Balance at 31 December 2021 | 3,508 | 260,415 | 193,413 | 457,336 | (6,519) | 450,817 |
| Year ended 31 December 2022 | | | | | | |
| Balance at 1 January 2022 | 3,508 | 260,415 | 193,413 | 457,336 | (6,519) | 450,817 |
| Comprehensive income | | | | | | |
| — Loss for the year | – | – | (53,107) | (53,107) | (263) | (53,370) |
| — Other comprehensive income | – | (36,740) | – | (36,740) | 553 | (36,187) |
| Total comprehensive income | – | (36,740) | (53,107) | (89,847) | 290 | (89,557) |
| Balance at 31 December 2022 | 3,508 | 223,675 | 140,306 | 367,489 | (6,229) | 361,260 |

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

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December | |
|---|------|------------------------|------------------|
| | | 2022 HK\$'000 | 2021 HK\$'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | 31 | 60,653 | 54,638 |
| PRC enterprise income tax paid | | (5,762) | (15,802) |
| Net cash generated from operating activities | | 54,891 | 38,836 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (29,450) | (1,341) |
| Prepayments for non-current assets | | (24,149) | – |
| Disposal of property, plant and equipment | | 59 | 18 |
| Purchase of intangible assets | | – | (723) |
| Purchase of investment properties | | (16,034) | – |
| Increase in restricted cash at banks | | (3,322) | (7,754) |
| Loans to third parties | | (42,320) | (63,921) |
| Repayments of loans from third parties | | 37,666 | 64,411 |
| Purchase of financial assets at fair value through profit or loss | | (88,869) | (242,662) |
| Net proceeds from disposal of financial assets at fair value through profit or loss | | 71,769 | 233,410 |
| Interest income from other financial assets | | 526 | 1,014 |
| Interest income from bank deposits | | 606 | 723 |
| Net cash used in investing activities | | (93,518) | (16,825) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 34,908 | – |
| Repayment of borrowings | | (11,636) | – |
| Interest paid | | (888) | – |
| Principal elements of operating lease payments | | (1,971) | (2,087) |
| Interests elements of operating lease payments | | (179) | (152) |
| Dividends paid | | – | (56,114) |
| Net cash generated from/(used in) financing activities | | 20,234 | (58,353) |
| Net decrease in cash and cash equivalents | | (18,393) | (36,342) |
| Cash and cash equivalents at beginning of the year | | 70,599 | 103,281 |
| Effect of change in exchange rate | | (4,936) | 3,660 |
| Cash and cash equivalents at end of the year | 26 | 47,270 | 70,599 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Huaxi Holdings Company Limited (the “**Company**”) was incorporated in the Cayman Islands on 29 April 2013 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the “**Group**”) are principally engaged in (i) manufacturing and sales of cigarette packaging materials; and (ii) environmental and ecological restoration treatment business in the People’s Republic of China (the “**PRC**”).

The ultimate parent company of the Company is SXD limited, which was incorporated in British Virgin Islands.

The Company’s shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 6 December 2013.

These consolidated financial statements are presented in thousands of Hong Kong dollars (“**HK\$**”) unless otherwise stated.

These consolidated financial statements have been approved for issue by the board of directors (the “**Board**”) of the Company on 29 March 2023.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the year presented, unless otherwise stated.

2.1 Basis of preparation

(a) Compliance with Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Companies Ordinance (Cap.622) (“HKCO”)

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs and the disclosure requirements of HKCO.

(b) Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss (“**FVPL**”), which are carried at fair value.

(c) New and amended standards adopted by the Group for the year ended 31 December 2022

The Group has applied the following standards and amendments for the first time for its reporting period commencing 1 January 2022:

- Amendments to HKAS 37 “Onerous Contracts — Cost of Fulfilling a Contract”
- HKFRS Standards “2018–2020 Annual Improvements”
- Amendments to HKFRS 3 “Reference to the Conceptual Framework”
- Amendments to AG 5 “Merger Accounting for Common Control Combinations”
- Property, Plant and Equipment: Proceeds before Intended Use — Amendments to HKAS 16

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) New and amended standards adopted by the Group for the year ended 31 December 2022 *(continued)*

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(d) New standards, amendments to standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

| | | Effective for reporting periods beginning on or after |
|---------------------------------------|---|---|
| Amendments to HKFRS 4 | Intention of the Temporary Exception from Applying HKFRS 9 | 1 January 2023 |
| HKFRS 17 | Insurance Contracts | 1 January 2023 |
| Amendments to HKAS 8 | Definition of Accounting Estimates | 1 January 2023 |
| Amendments to HKFRS 17 | Amendments to HKFRS 17 | 1 January 2023 |
| Hong Kong Interpretation 5 (2020) | Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause | 1 January 2023* |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |
| HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies | 1 January 2023 |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2024 |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |

* Applied when an entity applies "Classification of Liabilities as Current or Non-current — Amendments to HKAS 1".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Principles of consolidation

(a) Subsidiaries

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

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

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

(b) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate for an investment because of a loss of control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Principles of consolidation *(continued)*

(c) Business combinations

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

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

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

Acquisition-related costs are expensed as incurred.

The excess of the

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

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.3 Separate financial statements

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (“**CODM**”). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “**functional currency**”). The Company’s functional currency is Renminbi (“**RMB**”), as its operations are mainly carried out in the PRC. The consolidated financial statements are presented in HK\$, which is the Group’s and the Company’s presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the consolidated statement of comprehensive income within “Other (losses)/gains — net”.

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

(c) Group companies

The results and financial position of all the Group’s entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate. Exchange differences arising are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the periods in which they are incurred. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Plant and buildings 5–30 years
- Leasehold improvements 5 years
- Machinery 3–10 years
- Office equipment 3–5 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Administrative expenses" in the consolidated statement of comprehensive income.

Construction in progress are stated at cost. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to appropriate categories of property, plant and equipment and depreciated in accordance with the policy as stated above.

2.7 Investment properties

Investment properties, principally leasehold office buildings, are held to earn rentals or for capital appreciation or both.

Investment property is recognised only when it is probable that economic benefits associated with the property will flow to the Group and the cost of the property can be reliably measured.

Investment properties are initially and subsequently measured using the cost method. Depreciation is calculated using the straight-line method.

- Office 30 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.8 Intangible assets

(a) Computer software

Acquired computer software is capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 years.

(b) License

Acquired license is capitalised on the basis of costs incurred to acquire and are amortised over its estimated useful live of 3 years.

(c) Patent and technology

Patent and technology that the Group acquired are recognised at fair value at the acquisition date. They are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of patent and technology over their estimated useful lives of 3 years.

2.9 Impairment of non-financial assets

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

2.10 Investments and other financial assets

(a) Classification

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Investments and other financial assets *(continued)*

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(c) Measurement

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

Debt instruments

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

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other (losses)/gains — net" (if any), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income. Debt instruments are presented as "Trade receivables", "Other receivables", "Cash and cash equivalents" and "Restricted cash" in the consolidated statements of financial position.

Equity instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Investments and other financial assets *(continued)*

(d) Impairment

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

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and contract assets with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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

2.11 Offsetting financial instruments

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

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.13 Trade receivables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.14 Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents includes cash on hand and deposits held at banks. Bank deposits which are restricted to use are included in "Restricted cash at banks". Restricted cash at banks are excluded from cash and cash equivalents.

2.15 Share capital

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

2.16 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.18 Current and deferred income tax

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

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

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

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

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

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

2.19 Employee benefits

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

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group also participates in a pension scheme under the rules and regulations of the Mandatory Provident Fund Scheme Ordinance ("**MPF Scheme**"), which is a defined contribution retirement scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income. The monthly contributions of each of the group company and its employees are subject to a cap of HK\$1,500 and thereafter contributions are voluntary. The assets of this pension scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.20 Share-based payments

The Group operates an equity-settled, share-based compensation plan under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable of the goods or services transferred in the ordinary course of the Group's activities.

If contracts involve the sale of multiple elements, the transaction price is allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on the expected cost plus a margin or adjusted market assessment approach depending on the availability of observable information.

Revenue is recognised when or as the control of the asset under construction is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group's performance:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Revenue recognition *(continued)*

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

The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Group is acting as the principal or an agent in the transactions. In determining whether the Group acts as the principal or an agent, the Group follows the accounting guidance for principal-agent considerations in HKFRS 15 to assess whether the Group controls the specified service before it is transferred to the end customer, the indicators of which including but not limited to (i) whether the entity is primarily responsible for fulfilling the promise to provide the specified service; (ii) whether the entity has inventory risk before the specified service has been transferred to a customer; and (iii) whether the entity has discretion in establishing the prices for the specified goods or service. Such determination involves judgment and is based on an evaluation of the terms of each arrangement.

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Rendering of agency services

The Group recognised revenue from agency services for purchase of goods on behalf of customers when the supplier delivered products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

(c) Rendering of construction services for environmental and ecological restoration treatment business

The Group provides environmental and ecological restoration treatment construction services to its customers. A contract with a customer is classified as contract work when the contract relates to work which enhances an asset that the customer controls as the Group performs.

The Group has to identify the performance obligation in a contract. A performance obligation is a promise in a contract to transfer a good or service to a customer. The Group assessed that the construction contract only contained a single performance obligation as the construction works are not possible to be separately distinct.

When determining the transaction price, the Group considers factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group performance and whether the delayed payment is for finance purpose. The period between the transfer of the promised services and payments by customers may exceed one year. Management consider that there is no significant financing component for these receivables, as such payment term is an industry practise. As a consequence, the Group does not adjust any of the transaction price for the time value of money.

The Group recognises revenue from a contract work progressively over time using the input method, which is based on the proportion of the actual costs incurred relative to the estimated total costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.21 Revenue recognition *(continued)*

(c) Rendering of construction services for environmental and ecological restoration treatment business *(continued)*

The likelihood of the Group suffering contractual penalties or liquidated damages for late completion are taken into account in making these estimates where applicable, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The liquidated damages are treated as variable consideration under HKFRS 15 and the amounts are included in revenue to the extent that it is highly probable that contract revenue will not reverse. Management takes into account the progress of contract works and other external factors in assessing whether there will be contractual penalties or liquidated damages for late completion, which would in turn impact the amount of revenue to be recognised in an accounting period. There are no other obligations for warranty or refunds other than those warranties which provide customers with assurance that the related contract work will function as parties intended.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, the expected loss is recognised as an expense immediately.

Progress billings are billed and recognised as trade receivables in accordance with the terms agreed between the Group and its customers. A contract asset is recognised in the consolidated statement of financial position when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed under expected credit losses model and are reclassified to receivables when the right to the consideration has become unconditional. A contract liability is recognised in the consolidated statement of financial position when the customer pays consideration before the Group recognises the corresponding revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Contract assets will be classified as trade receivables or retention receivables when the Company's right to consideration is unconditional (that is, when payment is due only on the passage of time).

Retention sum for contract works are settled in accordance with the terms of the respective contracts.

(d) Rendering of other services

Revenue from maintenance services is recognised over time when the service is rendered. Revenue from design and consulting services is recognised at a point in time when deliverables are accepted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Earnings per share

(a) **Basic earnings per share**

Basic earnings per share is calculated by dividing:

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

(b) **Diluted earnings per share**

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

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

2.23 Leases

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

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.23 Leases *(continued)*

To determine the incremental borrowing rate, the Group:

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, for example, term, country, currency and security.

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise office equipments and office buildings.

Prepaid operating lease made for the land-use rights are recognised as right-of-use asset and is expensed in profit or loss on a straight-line basis over the period of the right of 50 years.

The Group did not receive any COVID-19-related rent concession during the year ended 31 December 2022.

2.24 Interest Income

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.25 Research and development

Research expenditures are recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.26 Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the financial department under policies approved by the Board.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk

(i) Foreign exchange risk

The Group operates in the PRC with most transactions being settled in RMB, which is the functional currency of the Company and its operating subsidiaries in the PRC. Certain transactions are settled in HK\$ and US dollar (“**US\$**”). The Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitoring the movement of the foreign currency rates.

The carrying amount of the Group’s foreign currency denominated monetary assets and liabilities was as follows:

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|-------------------------------|---------------------------------|---------------------------------|
| Denominated in HK\$ | | |
| – Financial assets at FVPL | 8,998 | 16,260 |
| – Cash and cash equivalents | 856 | 4,449 |
| – Other receivables | 371 | 371 |
| – Other payables and accruals | (44) | (319) |
| | 10,181 | 20,761 |
| Denominated in US\$ | | |
| – Cash and cash equivalents | – | 336 |

As at 31 December 2022, if RMB strengthened/weakened by 5% (31 December 2021: 5%) against the relevant foreign currencies with all other variables held constant, post-tax profit for the year would have been approximately HK\$429,000 (2021: HK\$887,000) lower/higher.

(ii) Cash flow and fair value interest rate risk

The Group’s interest rate risk arises from deposits and restricted cash held in banks with variable rates, which expose the Group to cash flow interest rate risk. Borrowings with fixed rates and carried at amortised cost do not expose the Group to cash flow or fair value interest rate risk.

As at 31 December 2022, if the market interest rates had been 50 basis points (31 December 2021: 50 basis points) higher/lower with all other variables held constant, post-tax profit for the year ended 31 December 2022 would have been HK\$387,000 (2021: HK\$488,000) higher/lower, mainly as a result of higher/lower interest income on deposits and restricted cash held in banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(iii) Price risk

The group's exposure to equity securities price risk arises from listed securities investments held by the group and classified in the consolidated statement of financial position as at fair value through profit or loss (note 24). To manage its price risk arising from investments in equity securities, the group diversifies its portfolio.

As at 31 December 2022, if the price of the listed securities increased/decreased by 10% (31 December 2021: 10%) with all other variables being held constant, post-tax profit for the year ended 31 December 2022 would have increased/decreased by HK\$4,212,000 (2021: HK\$5,588,000).

(b) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash at banks, trade receivables, contract assets and other receivables.

(i) Risk management

As at 31 December 2022, substantially all (31 December 2021: same) of the Group's bank deposits are deposited with major financial institutions incorporated in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk (31 December 2021: same).

As at 31 December 2022, approximately 78.4% (31 December 2021: 84.0%) of the Group's trade receivables were due from the five largest customers. In respect of trade receivables and other receivables, periodical credit evaluations are performed taking into account the counterparty's financial position, past experience, future economic environment and other factors.

None of the Group's trade receivables and other receivables has any collateral. However, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information, such as actual or expected significant adverse changes in business, and financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

(ii) Impairment of financial assets

The Group has three types of assets that are subject to the expected credit loss model:

- Trade receivables;
- Contract assets; and
- Other financial assets at amortised costs

Trade receivables and contract assets

The Group applies HKFRS 9 simplified approach to measure the expected credit losses which uses a lifetime expected loss allowance of its trade receivables and contract assets. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

In estimating the expected credit losses, credit evaluation on individual customer is performed by management. The evaluation focused on assessing the size and background of each customer as well as pertaining to the current and future economic environment in which the customer operates. Management estimate the expected credit loss rate of each customer by performing quantitative assessment on the customer's credit rating and apply default probability and loss rates taking into account the life of trade receivables and contract assets and forward-looking information. For forward-looking information, management has identified consumer price index, fixed asset investment and purchasing managers' index in the PRC as the most relevant factors, and accordingly, has adjusted the expected loss rate based on these factors. The impact of COVID-19 has also been considered in considering the forward-looking adjustment and the overall expected credit loss rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

(ii) Impairment of financial assets *(continued)*

Trade receivables and contract assets (continued)

To measure the expected credit losses, trade receivables and contract assets have been grouped based on similar credit risk characteristics. On that basis, the allowance for impairment as at 31 December 2022 was determined as follows for trade receivables and contract assets:

| | 31 December 2022 | | | 31 December 2021 | | |
|---|-----------------------------------|----------------------------|---------------------|-----------------------------------|----------------------------|---------------------|
| | Gross carrying amount HK\$'000 | Loss allowance HK\$'000 | Expected loss rates | Gross carrying amount HK\$'000 | Loss allowance HK\$'000 | Expected loss rates |
| Individual: | | | | | | |
| Customer A | 27,985 | (13,993) | 50.00% | 31,113 | (4,748) | 15.262% |
| Customer B | 16,328 | (16,328) | 100.00% | 20,286 | (3,022) | 14.896% |
| Others | 358 | (358) | 100.00% | 221 | (221) | 100.000% |
| | 44,671 | (30,679) | | 51,620 | (7,991) | |
| Collective: | | | | | | |
| Environmental and ecological restoration treatment business | 215,278 | (211) | 0.055% -0.120% | 334,914 | (430) | 0.087% -0.161% |
| Cigarette packaging business | 33,481 | (8) | 0.023% | 44,977 | (24) | 0.053% |
| Others | 2,656 | (1) | 0.023% -0.120% | 6,205 | (3) | 0.053% |
| | 251,415 | (220) | | 386,096 | (457) | |
| Total | 296,086 | (30,899) | | 437,716 | (8,448) | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

(ii) Impairment of financial assets *(continued)*

Trade receivables and contract assets *(continued)*

The movement of allowance for impairment of trade receivables was as follows:

| | Year ended 31 December | |
|----------------------------------|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| At beginning of the year | 8,395 | 279 |
| Impairment charges | 24,079 | 7,982 |
| Currency translation differences | (1,625) | 134 |
| At end of the year | 30,849 | 8,395 |

The movement of allowance for impairment of contract assets was as follows:

| | Year ended 31 December | |
|----------------------------------|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| At beginning of the year | 53 | 9 |
| Impairment charges | 1 | 43 |
| Currency translation differences | (4) | 1 |
| At end of the year | 50 | 53 |

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables (excluding prepayments and prepaid value added taxes). Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk.

As of 31 December 2022, other receivables from a specific third-party amounting to RMB4,000,000 (equivalent to HK\$4,478,000) were non-performing, and the Group had individually assessed that the expected loss rates were 100% as the counter party was experiencing significant financial difficulties. Except for that, the Group has assessed that there is no significant increase of credit risk for other receivables since initial recognition. Thus the Group used the 12 months expected credit losses model to assess credit loss of other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

(ii) Impairment of financial assets *(continued)*

Other financial assets at amortised cost *(continued)*

The movement in allowance for impairment of other receivables was as follows:

| | Year ended 31 December | |
|----------------------------------|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| At beginning of the year | 524 | 412 |
| Impairment charges | 4,332 | 393 |
| Write off | – | (291) |
| Currency translation differences | (209) | 10 |
| At end of the year | 4,647 | 524 |

Trade receivables, contract assets and other receivables are written off when there is no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off are credited into profit or loss.

Impairment on trade receivables, contract assets and other receivables are presented as separate item in the consolidated statement of comprehensive income.

While cash and cash equivalents and restricted cash at banks are also subject to the impairment requirement of HKFRS 9, the identified impairment losses was immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations.

The table below set out the Group's financial liabilities by relevant maturity grouping at the end of the reporting period. Those due within 12 months equal their carrying balances, as the impact of discounting is not significant. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Within 1 year HK\$'000 | 1 to 2 years HK\$'000 | Over 2 years HK\$'000 | Total HK\$'000 |
|-------------------------------|---------------------------|--------------------------|--------------------------|-------------------|
| As at 31 December 2022 | | | | |
| Trade and notes payable | 142,184 | – | – | 142,184 |
| Borrowings | 22,389 | – | – | 22,389 |
| Lease liabilities | 2,340 | 293 | – | 2,633 |
| Other payables and accruals* | 2,530 | – | – | 2,530 |
| | 169,443 | 293 | – | 169,736 |
| As at 31 December 2021 | | | | |
| Trade and notes payable | 204,606 | – | – | 204,606 |
| Lease liabilities | 2,367 | 1,978 | – | 4,345 |
| Other payables and accruals* | 4,678 | – | – | 4,678 |
| | 211,651 | 1,978 | – | 213,629 |

* Excluding other tax payables and accrual for staff costs and allowances

3.2 Capital management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net borrowings divided by total capital. Net borrowings are calculated as borrowings plus lease liabilities less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the financial statements plus net borrowings.

No gearing ratio was presented as the Group had net cash surplus as at 31 December 2022 (31 December 2021: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

| | Level 1 HK\$'000 | Level 2 HK\$'000 | Total HK\$'000 |
|---|---------------------|---------------------|-------------------|
| Financial assets at FVPL – listed securities | | | |
| At 31 December 2022 | 51,066 | 1,080 | 52,146 |
| At 31 December 2021 | 67,758 | – | 67,758 |

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current ask price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

For the year ended 31 December 2022, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities (2021: same).

3.4 Fair value of financial assets and liabilities measured at amortised cost

The carrying amounts of the Group's cash and cash equivalents, restricted cash at banks, trade receivables, other receivables, trade and notes payable, lease liabilities, borrowings and other payables and accruals approximate their fair values due to their short maturities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

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

4.1 Recognition of revenue from construction services for environmental and ecological restoration treatment business

The Group recognises the revenue over time based on the percentage of completion, using input methods in accordance with HKFRS 15. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. In addition, management also takes into account other external factors, including but not limited to the impact of COVID-19 pandemic, in assessing the timing and cost required to complete the projects, which may in turn impact the amount of revenue to be recognised in an accounting period. The Group reviews and revises the estimates of contract revenue, budget costs and variation orders, if any, for each construction contract as the contract progresses and regularly reviews the progress of the contracts.

4.2 Estimated impairment of financial assets at amortised cost

Expected credit losses are unbiased probability-weighted estimates of credit losses which are determined by evaluating a range of possible outcomes and taking into account past events, current and future conditions, including but not limited to the impact of COVID-19 pandemic, on the ability of the Group's customers to repay the debts.

The Group has derived the expected loss rate by referencing to credit rating analysis and external default data to determine the probability of default of its financial assets at amortised cost and incorporated forward looking information, including significant changes in external market indicators which involved significant estimates and judgements.

4.3 Estimated impairment of non-current assets

Non-current assets including property, plant and equipment, intangible assets, right-of-use assets, investment properties and prepayments for non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable, including but not limited to the impact of COVID-19 pandemic on the future operations and cash flows of the Group. The recoverable amounts have been determined based on the higher of value-in-use calculations or fair value less costs to sell calculations. The calculations require the use of judgements and estimates. Management judgement is required in the area of asset impairment particularly in assessing:

- whether an event has occurred that may indicate that the related asset values may not be recoverable;
- whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and
- the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate.

Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

4.4 Estimated impairment of inventories

The Group estimates the net realisable value of inventories. Net realisable value is determined based on the estimated selling price in the ordinary course of business, which has taken into account the impact of COVID-19 pandemic to economic environment in which the Group operates, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. Even if the Group has made stock provision for the expected impairment at its best estimate, there is a possibility that changes in market conditions will alter the result.

4.5 Income taxes and deferred taxation

The Group is primarily subject to income taxes in the PRC and Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

4.6 Recognition of interest income from loan to independent third parties

Shantou Xinda Colour Printing & Packaging Material Co. Ltd. ("**Shantou Xinda**"), the Group's subsidiary in the PRC, offered unsecured and interest bearing loans to two independent third parties. As the amount matured in December 2022, total principle amounting to RMB32,370,000 (equivalent to HK\$36,236,000) was repaid while principle amounting to RMB4,000,000 (equivalent to HK\$4,478,000) and interest receivables amounting to RMB9,898,000 (equivalent to HK\$11,080,000) remained uncollected. The Group assessed the uncertainty on collectability of the interest receivables to be high and did not recognise related interest income.

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company.

The Group is principally engaged in the manufacturing and sales of packaging materials for cigarette in the PRC (the "**Cigarette Packaging Business**") and environmental and ecological restoration treatment business in the PRC (the "**Environmental Treatment Business**"), which are identified as reportable segments. Meanwhile, the Group diversified its business into other business, which is in a preliminary stage and contributed to less than 10% of the Group's revenue, profit or loss and assets.

The CODM assesses the performance of the operating segments based on operating profit excluding other gains or losses arising from financial assets at FVPL.

Segment assets exclude financial assets at FVPL, investment properties and deferred tax assets. Segment liabilities exclude current income tax liabilities and deferred tax liabilities.

Capital expenditures represent addition for the acquisition of property, plant and equipment, intangible assets, investment properties, prepayments for non-current assets and right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(continued)*

- (a) The segment results and other segment items of the Group for the year ended 31 December 2022 were as follows:

| | Cigarette Packaging Business HK\$'000 | Environmental and ecological restoration treatment business HK\$'000 | Others HK\$'000 | The Group HK\$'000 |
|---|--|---|--------------------|-----------------------|
| Revenue | 167,582 | 26,641 | 313 | 194,536 |
| Segment results | 6,253 | (37,549) | 313 | (30,983) |
| Other losses arising from financial assets at FVPL | | | | (27,361) |
| Operating loss | | | | (58,344) |
| Finance income — net | | | | 64 |
| Loss before income tax | | | | (58,280) |
| Income tax credit | | | | 4,910 |
| Loss for the year | | | | (53,370) |
| Other segment item Depreciation and amortisation | 6,030 | 4,293 | — | 10,323 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(continued)*

(a) *(continued)*

The segment results and other segment items of the Group for the year ended 31 December 2021 were as follows:

| | Cigarette Packaging Business HK\$'000 | Environmental and ecological restoration treatment business HK\$'000 | Others HK\$'000 | The Group HK\$'000 |
|---|--|---|--------------------|-----------------------|
| Revenue | 183,925 | 215,333 | 5,301 | 404,559 |
| Segment results | 25,326 | 25,463 | 5,202 | 55,991 |
| Other losses arising from financial assets at FVPL | | | | (9,946) |
| Operating profit | | | | 46,045 |
| Finance income — net | | | | 1,618 |
| Profit before income tax | | | | 47,663 |
| Income tax expense | | | | (11,188) |
| Profit for the year | | | | 36,475 |
| Other segment item Depreciation and amortisation | 5,951 | 7,061 | — | 13,012 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(continued)*

(b) The segment assets and liabilities at 31 December 2022 were as follows:

| | Cigarette Packaging Business HK\$'000 | Environmental and ecological restoration treatment business HK\$'000 | Others HK\$'000 | Inter-segment elimination HK\$'000 | The Group HK\$'000 |
|--------------------------------|--|---|--------------------|--|-----------------------|
| Segment assets | 417,738 | 250,741 | 16,647 | (185,092) | 500,034 |
| Investment properties | | | | | 15,234 |
| Financial assets at FVPL | | | | | 52,146 |
| Deferred tax assets | | | | | 9,852 |
| Total assets | | | | | 577,266 |
| Segment liabilities | 110,606 | 265,943 | - | (185,092) | 191,457 |
| Current income tax liabilities | | | | | 17,349 |
| Deferred tax liabilities | | | | | 7,200 |
| Total liabilities | | | | | 216,006 |
| Capital expenditures | 46,556 | 22,918 | - | - | 69,474 |

The segment assets and liabilities at 31 December 2021 were as follows:

| | Cigarette Packaging Business HK\$'000 | Environmental and ecological restoration treatment business HK\$'000 | Others HK\$'000 | Inter-segment elimination HK\$'000 | The Group HK\$'000 |
|--------------------------------|--|---|--------------------|--|-----------------------|
| Segment assets | 416,226 | 375,166 | 57,604 | (191,340) | 657,656 |
| Financial assets at FVPL | | | | | 67,758 |
| Deferred tax assets | | | | | 7,563 |
| Total assets | | | | | 732,977 |
| Segment liabilities | 92,820 | 345,842 | - | (191,340) | 247,322 |
| Current income tax liabilities | | | | | 24,668 |
| Deferred tax liabilities | | | | | 10,170 |
| Total liabilities | | | | | 282,160 |
| Capital expenditures | 3,792 | 2,448 | - | - | 6,240 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 REVENUE

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| At a point in time | | |
| — Sales of cigarette packaging products | 167,582 | 183,925 |
| — Agency services | 313 | 5,301 |
| — Revenue from design and consulting services | 2,990 | 1,655 |
| | 170,885 | 190,881 |
| Over time | | |
| Revenue from construction and maintenance contracts | | |
| — Construction services | 13,862 | 201,495 |
| — Maintenance services | 9,789 | 12,183 |
| | 23,651 | 213,678 |
| | 194,536 | 404,559 |

Except for the customers listed below, no other customers individually accounted for more than 10% of the Group's revenue for the year:

| | Year ended 31 December | |
|------------|------------------------|-------|
| | 2022 | 2021 |
| Customer C | 43.7% | 16.3% |
| Customer D | 42.0% | 28.6% |
| Customer E | Not applicable* | 42.9% |

Note*: The revenue of the customer was less than 10% of the Group's revenue for the respective year.

Majority of the Group's revenue were derived from customers in the PRC for the year ended 31 December 2022 (2021: same).

(a) Assets and liabilities related to contracts with customers

(i) The Group has recognised the following assets related to contracts with customers:

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|--|---------------------------------|---------------------------------|
| Contract assets relating to construction contracts | 44,401 | 38,267 |
| Loss allowance | (50) | (53) |
| Total contract assets | 44,351 | 38,214 |

(ii) Unsatisfied contracts

The Group's contracts of sales of cigarette packaging products, rendering of agency services, design and consulting services and construction services are for periods of one year or less. Contracts for maintenance services give the Group rights to consideration from customers in the amount that corresponds directly with the value to the customer of the Group's performance completed to date. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 EXPENSES BY NATURE

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Raw materials consumed and subcontracting costs for construction contracts | 30,106 | 167,947 |
| Cost of inventories sold | 89,610 | 89,952 |
| Staff costs (including directors' emoluments) (Note 8) | 43,162 | 42,379 |
| Depreciation and amortisation | | |
| – Depreciation of property, plant and equipment (Note 15) | 7,132 | 7,863 |
| – Depreciation of Investment properties (Note 17) | 200 | – |
| – Depreciation of right-of-use assets (Note 16) | 2,914 | 2,242 |
| – Amortisation of intangible assets (Note 18) | 77 | 2,907 |
| Utilities | 4,989 | 5,874 |
| Professional services expenses | 1,606 | 3,277 |
| Auditor's remuneration | | |
| – Audit services | 1,955 | 2,782 |
| – Non-audit services | 372 | 313 |
| Other taxes and surcharges | 2,427 | 2,825 |
| Expenses relating to operating leases not recognised as liabilities (Note 16) | 73 | 1,032 |
| Delivery costs | 1,591 | 1,635 |
| Gain on modification of patent | – | (1,204) |
| Other expenses | 11,079 | 9,678 |
| Total cost of sales, distribution costs and administrative expenses | 197,293 | 339,502 |

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | Year ended 31 December | |
|--|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Salaries, wages, bonuses, welfare and other benefits | 40,327 | 40,060 |
| Contributions to pension plans | 2,835 | 2,319 |
| | 43,162 | 42,379 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2022 was set out below:

| | Fees HK\$'000 | Salaries and allowances HK\$'000 | Employer's contribution to pension plans HK\$'000 | Total HK\$'000 |
|---|------------------|--|--|-------------------|
| Year ended 31 December 2022 | | | | |
| Executive directors: | | | | |
| Mr. Zheng Andy Yi Sheng (i) | 500 | 130 | 12 | 642 |
| Mr. Zheng Minsheng | 400 | 293 | 12 | 705 |
| Non-executive director: | | | | |
| Mr. Hao Jiming | 120 | – | – | 120 |
| Independent non-executive directors: | | | | |
| Mr. Lau Kwok Hung | 120 | – | – | 120 |
| Mr. Fok Po Tin | 120 | – | – | 120 |
| Mr. Cai Xiaowen | 120 | – | – | 120 |
| | 1,380 | 423 | 24 | 1,827 |

The remuneration of each director for the year ended 31 December 2021 was set out below:

| | Fees HK\$'000 | Salaries and allowances HK\$'000 | Employer's contribution to pension plans HK\$'000 | Total HK\$'000 |
|---|------------------|--|--|-------------------|
| Year ended 31 December 2021 | | | | |
| Executive directors: | | | | |
| Mr. Zheng Andy Yi Sheng (i) | 500 | 133 | 11 | 644 |
| Mr. Zheng Minsheng | 400 | 167 | 11 | 578 |
| Non-executive director: | | | | |
| Mr. Hao Jiming | 120 | – | – | 120 |
| Independent non-executive directors: | | | | |
| Mr. Lau Kwok Hung | 120 | – | – | 120 |
| Mr. Fok Po Tin | 120 | – | – | 120 |
| Mr. Cai Xiaowen | 120 | – | – | 120 |
| | 1,380 | 300 | 22 | 1,702 |

(i) Mr. Zheng Andy Yi Sheng is the chief executive officer of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

(b) Benefits and interests of directors

During the year ended 31 December 2022, none of the directors waived or agreed to waive any emoluments (2021: same) and no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2021: same).

For the year ended 31 December 2022, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor were any payable (2021: same). No consideration was provided to or receivable by third parties for making available directors' services (2021: same). There were no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities for the year ended 31 December 2022 (2021: same).

No directors of the Company and their connected entities had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year ended 31 December 2022 or at any time during the year (2021: same).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2021: two) directors whose emoluments were reflected in the analysis presented above. The emoluments payable to the remaining three (2021: three) individuals during the year were as follows:

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Basic salaries, housing allowances, other allowances and benefits in kind | 2,297 | 2,227 |
| Contributions to pension schemes | 54 | 51 |
| | 2,351 | 2,278 |

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

| | Year ended 31 December | |
|------------------------|------------------------|------|
| | 2022 | 2021 |
| Emolument bands | | |
| — Nil to HK\$1,000,000 | 3 | 3 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(continued)*

(d) Senior management's emoluments by band

The senior management's emoluments excluding the directors and the five highest paid individuals fell within the following bands:

| | Year ended 31 December | |
|------------------------|------------------------|------|
| | 2022 | 2021 |
| Emolument bands | | |
| – Nil to HK\$1,000,000 | 3 | 3 |

9 OTHER LOSSES – NET

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Foreign exchange gains/(losses) | 186 | (648) |
| Dividend income from financial assets at FVPL | 1,064 | 1,779 |
| Net fair value losses on financial assets at FVPL | (28,425) | (11,725) |
| | (27,175) | (10,594) |

10 FINANCE INCOME – NET

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Finance income | | |
| – Interest income from bank deposits | 606 | 723 |
| – Interest income from other financial assets (a) | 526 | 1,014 |
| | 1,132 | 1,737 |
| Finance cost | | |
| – Interest expenses on borrowings | (888) | – |
| – Interest expenses on lease liabilities <i>(Note 16)</i> | (180) | (119) |
| | 64 | 1,618 |

(a) Other financial assets comprised certain non-derivative wealth management products with fixed or determinable payment terms of less than 180 days from a financial institution. As at 31 December 2022, all these financial assets were matured (31 December 2021: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 INCOME TAX (CREDIT)/EXPENSE

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the British Virgin Islands was incorporated under the International Business Companies Act of the British Virgin Islands and, accordingly, is exempted from British Virgin Islands income tax.

The Company's operating subsidiaries incorporated in Hong Kong are subject to income tax at a rate of 16.5% (2021: 16.5%) on the assessable profits arising in Hong Kong. For the year ended 31 December 2022, the Group is eligible to nominate one Hong Kong incorporated entity in the Group, which is Huge East Investment Limited, to be taxed under a two tiered profits tax rate system, whereby profits tax will be chargeable on the first HK\$2,000,000 of assessable profits at 8.25% and assessable profits above this threshold will be subject to a rate of 16.5% (2021: same). Hong Kong profits tax of the other Hong Kong incorporated group entities has been provided for at a rate of 16.5% on the estimated assessable profits. The profit of the other Hong Kong incorporated group entities is mainly derived from dividend income from subsidiaries and interest income from banks, which is not subject to Hong Kong profits tax.

Pursuant to the PRC Enterprise Income Tax Law ("**EIT Law**") and the Implementation Rules of the EIT Law, the EIT rate for domestic enterprises and foreign invested enterprises is 25%, effective from 1 January 2008.

On 1 December 2020, Shantou Xinda successfully renewed the High and New Technology Enterprise Certificate ("**the Certificate**") which was effective for three years commencing on 1 January 2020. As there is no change to the relevant laws and regulations, the directors assess and consider that Shantou Xinda will continue to be granted the preferential tax treatment through an application of renewal. Accordingly, tax rate of 15% has been applied when considering current income tax for the period and the deferred income tax.

According to the EIT Law and Implementation Rules, starting from 1 January 2008, a withholding income tax of 10% will be levied on the intermediate holding companies outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding income tax rate may be applied when the intermediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfill requirements under the tax treaty agreements between the relevant authorities of the PRC and Hong Kong. Hence, the Group used 5% as its withholding tax rate for certain Hong Kong intermediate holding companies which are expected to fulfill the aforesaid conditions.

| | Year ended 31 December | |
|--|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Current income tax | | |
| – PRC corporate income tax | 66 | 12,879 |
| Deferred income tax | | |
| – PRC corporate income tax | (3,047) | (3,744) |
| – Withholding income tax on (loss)/profit to be distributed from subsidiaries in the PRC | (1,929) | 2,053 |
| | (4,910) | 11,188 |

There were no income tax charges relating to components of other comprehensive income for the year ended 31 December 2022 (2021: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 INCOME TAX (CREDIT)/EXPENSE *(continued)*

The tax on the Group's profit before tax differed from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities as follows:

| | Year ended 31 December | |
|--|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| (Loss)/profit before income tax | (58,280) | 47,663 |
| Tax calculated at applicable corporate income tax rate of the respective companies | (13,593) | 9,304 |
| Tax effect of: | | |
| – Net of expenses not deductible for income tax and income not subject to tax | 2,112 | (97) |
| – Adjustments for current tax of prior periods | 644 | – |
| – Previously unrecognised tax losses now recouped to reduce current tax expense | (156) | – |
| – Additional deduction on research and development expenses | (2,760) | (2,095) |
| – Tax losses and temporary differences for which no deferred income tax asset was recognised | 10,772 | 2,023 |
| – Withholding income tax on (loss)/profit to be distributed from subsidiaries in the PRC | (1,929) | 2,053 |
| | (4,910) | 11,188 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share are calculated by dividing the (losses)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | Year ended 31 December | |
|--|------------------------|---------------|
| | 2022 | 2021 |
| Loss/profit attributable to owners of the Company (HK\$'000) | (53,107) | 36,996 |
| Weighted average number of ordinary shares in issue | 701,430,000 | 701,430,000 |
| Basic (losses)/earnings per share | HK (7.57) cents | HK 5.27 cents |

(b) Diluted

Diluted (losses)/earnings per share adjusts the figures used in the determination of basic (losses)/earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares. Diluted (losses)/earnings per share equals to basic (losses)/earnings per share as there were no potential dilutive shares outstanding as at 31 December 2022 and 2021.

13 DIVIDENDS

| | Year ended 31 December | |
|------------------------------|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Interim dividends (a) | – | 28,057 |
| Proposed final dividends (b) | – | – |
| | – | 28,057 |

(a) Interim dividends

No interim dividend for the year ended 31 December 2022 has been declared (2021: HK4.00 cents per share).

(b) Proposed final dividends

No final dividend in respect of the year ended 31 December 2022 (2021: same), was proposed by the Board on 29 March 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 SUBSIDIARIES

Details of the subsidiaries at 31 December 2022 were set out below:

| Name | Date of incorporation | Place of operation/ establishment | Nominal value of issued share capital or registered capital | Principal activities | Attributable equity interest to the owners of the Company | |
|---|-----------------------|-----------------------------------|---|---|---|--------|
| | | | | | 2022 | 2021 |
| Esteem Joy Limited | 13 April 2015 | British Virgin Islands | US\$1 | Investment holding | 100% | 100% |
| Xinda Capital Limited | 21 May 2013 | British Virgin Islands | US\$50,000 | Investment holding | 100% | 100% |
| China Environmental Holdings Limited | 17 October 2016 | Hong Kong | HK\$1 | Investment holding | 100% | 100% |
| Xin Da (Hong Kong) Investment Trading Company Limited | 13 June 2013 | Hong Kong | HK\$1 | Investment holding | 100% | 100% |
| Hua Xin Finance Limited | 15 May 2019 | Hong Kong | HK\$100 | Not yet commenced formal operations | 100% | 100% |
| Xin Da High-tech Investments Limited | 31 October 2019 | Hong Kong | HK\$100 | Not yet commenced formal operations | 100% | 100% |
| Shantou Xinda (a) | 14 May 1992 | PRC | HK\$35,000,000 | Design, printing and sale of cigarette packages | 100% | 100% |
| Huge East Investment Limited ("Huge East") (b) | 30 May 2016 | Hong Kong | HK\$1 | Investment holding | 100% | 100% |
| Shantou Hongdong (b) | 21 July 2016 | PRC | HK\$150,000,000 (h) | Environmental protection construction works | 100% | 100% |
| Guangdong Xinda Detection Technology Company Limited ("Xinda Detection") (c) | 26 November 2019 | PRC | HK\$35,000,000 (i) | Not yet commenced formal operations | 100% | 100% |
| Chongqing Hong Yuan Zhong Environmental Engineering Company Limited ("Chongqing Hong Yuan Zhong") (d) | 23 September 2021 | PRC | RMB100,000,000 (j) | Not yet commenced formal operations | 95.05% | 95.05% |
| Huazhang Investments Company Limited | 12 November 2014 | Hong Kong | HK\$16,412,600 | Investment holding | 51% | 51% |
| Huazhang Biological Technology (Shanghai) Co., Ltd. ("Huazhang Shanghai") (e) | 17 December 2014 | PRC | RMB13,000,000 | Biological technology research and related products trading | 51% | 51% |
| Heihe Huazhang Agricultural Science and Technology Development Co., Ltd. ("Huazhang Heihe") (f) | 14 January 2015 | PRC | RMB10,000,000 (k) | Agricultural science and technology related service | 51% | 51% |
| Guangdong Foxin Environmental Management Co., Ltd. ("GD Foxin") (g) | 15 July 2015 | PRC | RMB10,000,000 (l) | Environmental treatment service | 51% | 51% |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 SUBSIDIARIES *(continued)*

Details of the subsidiaries at 31 December 2022 were set out below: (continued)

- (a) Shantou Xinda is a wholly foreign owned enterprise established in the PRC with an infinite operating period.
- (b) Huge East and Shantou Hongdong were acquired by the Group in a business combination. The Group acquired 100% equity interests in Huge East, together with its subsidiary on 21 August 2018. Shantou Hongdong was registered as wholly foreign owned enterprises under PRC law on 21 July 2016.
- (c) Xinda Detection is registered as wholly foreign owned enterprises under PRC law with an infinite operating period.
- (d) Chongqing Hong Yuan Zhong is a partially foreign owned limited liability company under PRC law with an infinite operating period.
- (e) Huazhang Shanghai is a wholly foreign owned enterprise established in the PRC to be operated for 30 years up to 16 December 2044.
- (f) Huazhang Heihe is established in the PRC with an infinite operating period.
- (g) GD Foxin is a wholly foreign owned enterprise established in the PRC for 15 years up to 15 July 2030.
- (h) Registered capital of Shantou Hongdong amounting to HK\$121,180,000 is yet to be paid up as at 31 December 2022.
- (i) Registered capital of Xinda Detection amounting to HK\$35,000,000 is yet to be paid up as at 31 December 2022.
- (j) Registered capital of Chongqing Hong Yuan Zhong amounting to RMB98,880,000 is yet to be paid up as at 31 December 2022, including RMB93,930,000 yet to be paid by the Group.
- (k) Registered capital of Huazhang Heihe amounting to RMB5,780,000 is yet to be paid up as at 31 December 2022.
- (l) Registered capital of GD Foxin amounting to RMB5,267,000 is yet to be paid up as at 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT

| | Plant and buildings HK\$'000 | Leasehold improvements HK\$'000 | Machinery HK\$'000 | Office equipment HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|--|------------------------------------|---------------------------------------|-----------------------|---------------------------------|---|-------------------|
| At 1 January 2021 | | | | | | |
| Cost | 37,643 | 3,969 | 64,509 | 5,286 | – | 111,407 |
| Accumulated depreciation | (23,754) | (1,580) | (39,671) | (4,010) | – | (69,015) |
| Net book amount | 13,889 | 2,389 | 24,838 | 1,276 | – | 42,392 |
| Year ended | | | | | | |
| 31 December 2021 | | | | | | |
| Opening net book amount | 13,889 | 2,389 | 24,838 | 1,276 | – | 42,392 |
| Additions | – | – | 701 | 104 | 536 | 1,341 |
| Disposal | – | – | (18) | – | – | (18) |
| Transfer from prepayment for non-current assets | – | – | – | – | 1,458 | 1,458 |
| Depreciation | (1,469) | (783) | (5,208) | (403) | – | (7,863) |
| Currency translation differences | 385 | 57 | 680 | 38 | 31 | 1,191 |
| Closing net book amount | 12,805 | 1,663 | 20,993 | 1,015 | 2,025 | 38,501 |
| At 31 December 2021 | | | | | | |
| Cost | 38,748 | 4,085 | 67,069 | 5,536 | 2,025 | 117,463 |
| Accumulated depreciation | (25,943) | (2,422) | (46,076) | (4,521) | – | (78,962) |
| Net book amount | 12,805 | 1,663 | 20,993 | 1,015 | 2,025 | 38,501 |
| Year ended | | | | | | |
| 31 December 2022 | | | | | | |
| Opening net book amount | 12,805 | 1,663 | 20,993 | 1,015 | 2,025 | 38,501 |
| Additions | 23,074 | – | 6,375 | 1 | – | 29,450 |
| Disposal | – | – | (59) | – | – | (59) |
| Transfer from prepayment for non-current assets | 825 | – | – | – | – | 825 |
| Transfer from construction in progress | – | – | 1,927 | – | (1,927) | – |
| Depreciation | (1,721) | (754) | (4,458) | (199) | – | (7,132) |
| Currency translation differences | (1,927) | (112) | (1,923) | (79) | (98) | (4,139) |
| Closing net book amount | 33,056 | 797 | 22,855 | 738 | – | 57,446 |
| At 31 December 2022 | | | | | | |
| Cost | 58,456 | 3,739 | 69,451 | 5,113 | – | 136,759 |
| Accumulated depreciation | (25,400) | (2,942) | (46,596) | (4,375) | – | (79,313) |
| Net book amount | 33,056 | 797 | 22,855 | 738 | – | 57,446 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT *(continued)*

As at 31 December 2022, majority of the Group's property, plant and equipment were located in the PRC (31 December 2021: same).

Depreciation of the property, plant and equipment had been charged to profit or loss as follows:

| | Year ended 31 December | |
|-------------------------|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Cost of sales | 3,463 | 3,855 |
| Administrative expenses | 3,669 | 4,008 |
| | 7,132 | 7,863 |

16 LEASES

(a) Amounts recognised in the consolidated statement of financial position

(i) Right-of-use assets

| | Land-use rights HK\$'000 | Office buildings HK\$'000 | Total HK\$'000 |
|------------------------------------|--------------------------------|---------------------------------|-------------------|
| At 1 January 2021 | | | |
| Cost | 8,049 | 4,017 | 12,066 |
| Accumulated depreciation | (2,567) | (2,010) | (4,577) |
| Net book amount | 5,482 | 2,007 | 7,489 |
| Year ended 31 December 2021 | | | |
| Opening net book amount | 5,482 | 2,007 | 7,489 |
| Additions | – | 4,899 | 4,899 |
| Derecognition due to modification | – | (519) | (519) |
| Depreciation charges | (159) | (2,083) | (2,242) |
| Currency translation differences | 157 | 36 | 193 |
| Closing net book amount | 5,480 | 4,340 | 9,820 |
| At 31 December 2021 | | | |
| Cost | 8,284 | 9,034 | 17,318 |
| Accumulated depreciation | (2,804) | (4,694) | (7,498) |
| Net book amount | 5,480 | 4,340 | 9,820 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 LEASES (continued)

(a) Amounts recognised in the consolidated statement of financial position (continued)

(i) Right-of-use assets (continued)

| | Land-use rights HK\$'000 | Office buildings HK\$'000 | Total HK\$'000 |
|------------------------------------|--------------------------------|---------------------------------|-------------------|
| Year ended 31 December 2022 | | | |
| Opening net book amount | 5,480 | 4,340 | 9,820 |
| Additions | – | 528 | 528 |
| Depreciation charges | (154) | (2,760) | (2,914) |
| Currency translation differences | (457) | (284) | (741) |
| Closing net book amount | 4,869 | 1,824 | 6,693 |
| At 31 December 2022 | | | |
| Cost | 7,583 | 5,254 | 12,837 |
| Accumulated depreciation | (2,714) | (3,430) | (6,144) |
| Net book amount | 4,869 | 1,824 | 6,693 |

As at 31 December 2022, except for certain leased office which was located in Hong Kong, the Group's other right-of-use assets were located in the PRC (31 December 2021: same).

(ii) Lease liabilities

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|--------------------------|---------------------------------|---------------------------------|
| Lease liabilities | | |
| – Current | 2,295 | 2,253 |
| – Non-current | 272 | 1,879 |
| | 2,567 | 4,132 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 LEASES *(continued)*

(b) Amounts recognised in the consolidated statement of comprehensive income

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Interest expense (included in finance cost) | 180 | 119 |
| Depreciation charges | 2,914 | 2,242 |
| Expenses relating to operating leases not recognised as liabilities (included in administrative expenses) | 73 | 1,032 |

The total cash outflow for leases during the year ended 31 December 2022 was HK\$2,223,000 (31 December 2021: HK\$3,271,000).

17 INVESTMENT PROPERTIES

| | Year ended 31 December | |
|----------------------------------|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Opening net book amount | – | – |
| Acquisitions | 16,034 | – |
| Depreciation charges | (200) | – |
| Currency translation differences | (600) | – |
| Closing net book amount | 15,234 | – |

The fair value of the investment properties as at 31 December 2022 was HK\$18,455,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 INTANGIBLE ASSETS

| | Computer software HK\$'000 | License HK\$'000 | Patent and technology HK\$'000 | Total HK\$'000 |
|------------------------------------|-------------------------------|---------------------|-----------------------------------|-------------------|
| Year ended 31 December 2021 | | | | |
| Opening net book amount | 65 | 159 | 3,471 | 3,695 |
| Derecognition due to modification | – | – | (724) | (724) |
| Amortisation | (24) | (88) | (2,795) | (2,907) |
| Currency translation differences | 2 | 2 | 48 | 52 |
| Closing net book amount | 43 | 73 | – | 116 |
| At 31 December 2021 | | | | |
| Cost | 780 | 5,573 | 11,207 | 17,560 |
| Accumulated amortisation | (737) | (5,500) | (11,207) | (17,444) |
| Net book amount | 43 | 73 | – | 116 |
| Year ended 31 December 2022 | | | | |
| Opening net book amount | 43 | 73 | – | 116 |
| Amortisation | (6) | (71) | – | (77) |
| Currency translation differences | (4) | (2) | – | (6) |
| Closing net book amount | 33 | – | – | 33 |
| At 31 December 2022 | | | | |
| Cost | 714 | 5,101 | 4,667 | 10,482 |
| Accumulated amortisation | (681) | (5,101) | (4,667) | (10,449) |
| Net book amount | 33 | – | – | 33 |

Amortisation of HK\$77,000 was charged to administrative expenses and cost of sales for the year ended 31 December 2022 (2021: HK\$2,907,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 DEFERRED INCOME TAX

The analysis of deferred income tax assets and deferred income tax liabilities was as follows:

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|---------------------------------|---------------------------------|---------------------------------|
| Deferred income tax assets | 9,852 | 7,563 |
| Deferred income tax liabilities | (7,200) | (10,170) |

The net movement on the deferred income tax account was as follows:

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| At beginning of the year | (2,607) | (7,663) |
| Tax charged to the consolidated statement of comprehensive income | 4,976 | 1,691 |
| Withholding income tax paid | 262 | 3,215 |
| Currency translation differences | 21 | 150 |
| At end of the year | 2,652 | (2,607) |

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, was as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 DEFERRED INCOME TAX *(continued)*

Deferred income tax assets

| | Temporary difference on depreciation and amortisation HK\$'000 | Temporary difference on accrual HK\$'000 | Temporary difference on fair value losses of listed securities HK\$'000 | Temporary difference on lease liabilities HK\$'000 | Temporary difference on provision for impairment of assets HK\$'000 | Total HK\$'000 |
|--|---|---|---|--|--|-------------------|
| At 1 January 2021 | 695 | 1,657 | 1,259 | 32 | 27 | 3,670 |
| Tax credited/(charged) to the consolidated statement of comprehensive income | 362 | (958) | 2,400 | 2 | 1,938 | 3,744 |
| Currency translation differences | 27 | 34 | 55 | 2 | 31 | 149 |
| At 31 December 2021 | 1,084 | 733 | 3,714 | 36 | 1,996 | 7,563 |
| Tax credited/(charged) to the consolidated statement of comprehensive income | (872) | (100) | (173) | (20) | 4,212 | 3,047 |
| Currency translation differences | (59) | (59) | (308) | (3) | (329) | (758) |
| At 31 December 2022 | 153 | 574 | 3,233 | 13 | 5,879 | 9,852 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 DEFERRED INCOME TAX *(continued)*

Deferred income tax liabilities

| | Withholding income tax on profit to be distributed from subsidiaries in the PRC HK\$'000 |
|---|---|
| At 1 January 2021 | 11,333 |
| Tax charged to the consolidated statement of comprehensive income | 2,053 |
| Withholding income tax paid | (3,215) |
| Currency translation differences | (1) |
| At 31 December 2021 | 10,170 |
| Tax charged to the consolidated statement of comprehensive income | (1,929) |
| Withholding income tax paid | (262) |
| Currency translation differences | (779) |
| At 31 December 2022 | 7,200 |

As at 31 December 2022, the Group had unrecognised deferred income tax liabilities of HK\$7,295,000 (31 December 2021: HK\$7,295,000), that would otherwise be payable as withholding income tax in respect of the undistributed profits of a PRC subsidiary. No provision has been made in respect of such withholding income tax as the directors have confirmed that such profits will not be distributed out of the PRC in the foreseeable future. Unremitted earnings in this respect amounted to approximately HK\$145,905,000 as at 31 December 2022 (31 December 2021: HK\$145,905,000).

As at 31 December 2022, the Group has unrecognised deferred tax assets of approximately HK\$11,542,000 (31 December 2021: HK\$3,070,000) with respect to tax losses amounting to HK\$44,596,000 (31 December 2021: HK\$12,273,000) of certain subsidiaries in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 DEFERRED INCOME TAX *(continued)*

Deferred income tax liabilities *(continued)*

The expiry date of tax losses carried forward in respect of which deferred tax assets have not been accounted for was as follows:

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|----------------|---------------------------------|---------------------------------|
| Expire in 2022 | – | 4,386 |
| Expire in 2023 | 388 | 388 |
| Expire in 2024 | 3,079 | 3,307 |
| Expire in 2025 | 2,769 | 2,769 |
| Expire in 2026 | 1,423 | 1,423 |
| Expire in 2027 | 36,140 | – |
| | 43,799 | 12,273 |

20 PREPAYMENTS FOR NON-CURRENT ASSETS

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|--|---------------------------------|---------------------------------|
| Prepayment for an intangible asset | 11,194 | 12,231 |
| Prepayments for property, plant and equipment | 2,374 | 978 |
| Prepayment for an investment (a) | 22,389 | – |
| | 35,957 | 13,209 |
| Less: provision for impairment of prepayment for an intangible asset | (11,194) | (12,231) |
| | 24,763 | 978 |

(a) The amount represented a prepayment for equity investment to an independent third party company.

21 INVENTORIES

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|----------------|---------------------------------|---------------------------------|
| Raw materials | 31,580 | 26,527 |
| Finished goods | 14,311 | 12,833 |
| | 45,891 | 39,360 |

The cost of inventories recognised as expense and included in cost of sales amounted to HK\$89,610,000 for the year ended 31 December 2022 (2021: HK\$89,952,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22 TRADE RECEIVABLES

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|---|---------------------------------|---------------------------------|
| Trade receivables | 251,685 | 399,449 |
| Less: allowance for impairment of trade receivables | (30,849) | (8,395) |
| Trade receivables — net | 220,836 | 391,054 |

(a) Ageing analysis of trade receivables based on date of billing at respective dates was as follows:

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|----------------------|---------------------------------|---------------------------------|
| Less than 90 days | 41,598 | 258,009 |
| 91 days to 180 days | 1,469 | 25,978 |
| 181 days to 365 days | 8,867 | 16,784 |
| Over 365 days | 199,751 | 98,678 |
| | 251,685 | 399,449 |

(b) The Group's trade receivables were denominated in RMB at 31 December 2022 (31 December 2021: same).

(c) As at 31 December 2022, the Group's maximum exposure to credit risk was the carrying value of trade receivables mentioned above. The Group did not hold any collateral as security (31 December 2021: same).

23 PREPAYMENTS AND OTHER RECEIVABLES

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|---|---------------------------------|---------------------------------|
| Other receivables (a) | 7,029 | 23,578 |
| Prepayments | 6,409 | 1,421 |
| Less: allowance for impairment of other receivables | (4,647) | (524) |
| | 8,791 | 24,475 |

(a) As at 31 December 2021, other receivables mainly included expected refund of RMB16,370,000 (amounting to HK\$20,022,000) from a third party for certain cancelled purchases of properties, which has been subsequently received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23 PREPAYMENTS AND OTHER RECEIVABLES *(continued)*

(b) The Group's other receivables were denominated in the following currencies:

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|---------------------|---------------------------------|---------------------------------|
| Denominated in RMB | 6,658 | 23,207 |
| Denominated in HK\$ | 371 | 371 |
| | 7,029 | 23,578 |

(c) As at 31 December 2022, the Group's maximum exposure to credit risk was the carrying value of other receivables mentioned above. The Group does not hold any collateral as security (31 December 2022: same).

24 FINANCIAL ASSETS AT FVPL

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|---|---------------------------------|---------------------------------|
| Listed securities — held for trading | | |
| — Equity securities — denominated in HK\$ | 8,998 | 16,260 |
| — Equity securities — denominated in RMB | 43,148 | 51,498 |
| | 52,146 | 67,758 |

25 RESTRICTED CASH AT BANK

As at 31 December 2022, the Group's restricted cash comprised deposits of HK\$38,836,000 (31 December 2021: HK\$42,968,000) as collateral for the Group's notes payable and deposits of HK\$5,124,000 (31 December 2021: HK\$1,571,000) as performance guarantee letter deposits, which were all denominated in RMB.

The effective interest rate on restricted cash at bank was 1.67% (31 December 2021: 1.62%) per annum. These deposits had an original maturity of 90 days to three years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 CASH AND CASH EQUIVALENTS

Cash and cash equivalents were denominated in the following currencies:

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|---------------------|---------------------------------|---------------------------------|
| Denominated in RMB | 46,414 | 65,814 |
| Denominated in HK\$ | 856 | 4,449 |
| Denominated in US\$ | - | 336 |
| | 47,270 | 70,599 |

The Group's cash and bank balances of HK\$46,414,000 (31 December 2021: HK\$65,814,000) and restricted cash at banks of HK\$43,960,000 (31 December 2021: HK\$44,539,000) denominated in RMB were deposited with banks in the PRC. The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

27 SHARE CAPITAL

| Authorised share capital | Number of ordinary shares | HK\$ |
|--|------------------------------|------------|
| At 1 January 2021, 31 December 2021 and 31 December 2022 | 4,000,000,000 | 20,000,000 |

| Ordinary shares, issued and fully paid | Number of issued shares | Share capital HK\$ |
|--|----------------------------|--------------------------|
| At 1 January 2021, 31 December 2021 and 31 December 2022 | 701,430,000 | 3,507,750 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28 OTHER RESERVES

| | Share premium HK\$'000 (Note 26) | Statutory reserves HK\$'000 (a) | Exchange reserves HK\$'000 | Capital reserves HK\$'000 (b) | Share-based compensation reserves HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|------------------------------------|--|---------------------------------------|-------------------------------|-------------------------------------|---|--------------------|-------------------|
| Year ended 31 December 2021 | | | | | | | |
| Balance at 1 January 2021 | 179,753 | 30,712 | (88) | 35,000 | - | 274 | 245,651 |
| Transfer to statutory reserves | - | 1,026 | - | - | - | - | 1,026 |
| Currency translation differences | - | - | 13,738 | - | - | - | 13,738 |
| Balance at 31 December 2021 | 179,753 | 31,738 | 13,650 | 35,000 | - | 274 | 260,415 |
| Year ended 31 December 2022 | | | | | | | |
| Balance at 1 January 2022 | 179,753 | 31,738 | 13,650 | 35,000 | - | 274 | 260,415 |
| Transfer to statutory reserves | - | - | - | - | - | - | - |
| Currency translation differences | - | - | (36,740) | - | - | - | (36,740) |
| Balance at 31 December 2022 | 179,753 | 31,738 | (23,090) | 35,000 | - | 274 | 223,675 |

(a) Statutory reserves

In accordance with relevant rules and regulations in the PRC, all the PRC companies that operated exclusively with foreign capitals are required to transfer an amount of not less than 10% of profit after taxation calculated under PRC accounting standards and regulations to the reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the PRC companies. The enterprise expansion fund can only be used to increase capital of the respective companies or to expand their production operations upon approval by the relevant authority.

(b) Capital reserves

The Group's capital reserves represented deemed contribution by the controlling shareholder Mr. Zheng Andy Yi Sheng to a subsidiary of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 TRADE AND NOTES PAYABLE

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|---------------------------------------|---------------------------------|---------------------------------|
| Trade payables (a) | 103,349 | 161,311 |
| Notes payable — bank acceptance notes | 38,835 | 43,295 |
| | 142,184 | 204,606 |

- (a) The ageing analysis of trade payables based on date of billing at respective dates of the Group was as follows:

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|----------------|---------------------------------|---------------------------------|
| Within 90 days | 84,063 | 145,996 |
| 91 to 180 days | 4,277 | 5,594 |
| Over 180 days | 15,009 | 9,721 |
| | 103,349 | 161,311 |

- (b) The Group's trade payables were denominated in RMB at 31 December 2022 (31 December 2021: same).
- (c) The fair value of trade and notes payable approximated their carrying amounts at 31 December 2022 (31 December 2021: same).

30 BORROWINGS

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|------------|---------------------------------|---------------------------------|
| Bank loans | 22,389 | — |

The carrying amounts of the Group's borrowings were denominated in RMB.

The Group's borrowings were secured by personal guarantee provided by the controlling shareholder of the Group, bearing an interest rate at 4.00% per annum, and maturing in February 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 OTHER PAYABLES AND ACCRUALS

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|--|---------------------------------|---------------------------------|
| Other tax payables | 11,803 | 24,962 |
| Accrual for staff costs and allowances | 9,984 | 8,944 |
| Other payables | 2,530 | 4,678 |
| | 24,317 | 38,584 |

- (a) The carrying amounts of the Group's other payables and accruals were denominated in the following currencies:

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|---------------------|---------------------------------|---------------------------------|
| Denominated in RMB | 24,273 | 38,265 |
| Denominated in HK\$ | 44 | 319 |
| | 24,317 | 38,584 |

- (b) The fair value of these balance approximated their carrying amounts at 31 December 2022 (31 December 2021: same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 CASH FLOW INFORMATION

(a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operating activities was as follows:

| | Year ended 31 December | |
|--|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Loss/profit before income tax | (58,280) | 47,663 |
| Adjustments for: | | |
| – Finance income | (1,132) | (1,737) |
| – Finance cost | 1,068 | 119 |
| – Depreciation and amortisation | 10,323 | 13,012 |
| – Other losses – net | 27,175 | 10,594 |
| – Gain on modification of patent | – | (1,204) |
| – Losses on derecognition of right-of-use assets and lease liabilities | – | (298) |
| – Net impairment losses on financial and contract assets | 28,412 | 8,418 |
| Changes in working capital: | | |
| – Trade receivables | 118,406 | (169,116) |
| – Contract assets | (9,745) | 40,491 |
| – Trade and notes payable | (46,862) | 73,787 |
| – Other payables and accruals | (11,436) | 13,733 |
| – Inventories | (10,256) | (8,807) |
| – Prepaid expenses | – | 158 |
| – Prepayments and other receivables | 12,980 | 27,825 |
| Cash generated from operating activities | 60,653 | 54,638 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 CASH FLOW INFORMATION *(continued)*

(b) Liabilities from financing activities

| | Borrowings HK\$'000 | Lease liabilities HK\$'000 | Total HK\$'000 |
|--|------------------------|----------------------------------|-------------------|
| Net debt as at 1 January 2021 | – | (4,780) | (4,780) |
| Cash flows | – | 2,239 | 2,239 |
| Additions of lease liabilities | – | (4,731) | (4,731) |
| Derecognition of lease liabilities due to modification | – | 649 | 649 |
| Foreign exchange adjustments | – | (31) | (31) |
| Interest expenses | – | (119) | (119) |
| Net debt as at 31 December 2021 | – | (4,132) | (4,132) |
| Cash flows | (22,384) | 2,150 | (20,234) |
| Additions of lease liabilities | – | (528) | (528) |
| Foreign exchange adjustments | 883 | 123 | 1,006 |
| Interest expenses | (888) | (180) | (1,068) |
| Net debt as at 31 December 2022 | (22,389) | (2,567) | (24,956) |

33 COMMITMENTS

(a) Capital commitments

As at 31 December 2022 and 31 December 2021, the Group had the following capital commitments:

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|--|---------------------------------|---------------------------------|
| Capital expenditure in respect of the addition of property and equipment contracted but not provided for | 4,421 | 1,341 |

34 RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

| Name | Relationship |
|-------------------------|---|
| Mr. Zheng Andy Yi Sheng | Controlling shareholder |
| Mr. Zheng Minsheng | Executive director and the deputy general manager of the Group and the younger brother of Mr. Zheng Andy Yi Sheng |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 RELATED PARTY TRANSACTIONS *(continued)*

(b) Balances with related parties

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|-------------------------------|---------------------------------|---------------------------------|
| Lease liabilities | | |
| – Mr. Zheng Andy Yi Sheng (i) | 457 | 938 |
| Other payables(ii): | | |
| – Mr. Zheng Andy Yi Sheng | 15 | 19 |
| – Mr. Zheng Minsheng | 85 | 54 |
| | 100 | 73 |

(i) During the year ended 31 December 2022, the Group had entered into certain lease agreements with Mr. Zheng Andy Yi Sheng to lease office buildings located in the PRC. The liabilities were denominated in RMB and unsecured.

(ii) Other payables are directors' salaries and allowance denominated in HK\$, unsecured, interest-free and repayable on demand.

(c) Transaction with related parties

| | Year ended 31 December | |
|--|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Interest expenses on lease liabilities | | |
| – Mr. Zheng Andy Yi Sheng | 42 | 67 |

(d) Key management compensations

Key management comprised executive directors and senior management of the Group. Their compensations were set out below.

| | Year ended 31 December | |
|--|------------------------|------------------|
| | 2022 HK\$'000 | 2021 HK\$'000 |
| Salaries, wages, bonuses, welfare and other benefits | 4,669 | 4,110 |
| Contributions to pension plans | 94 | 89 |
| | 4,763 | 4,199 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY

| | 31 December 2022 HK\$'000 | 31 December 2021 HK\$'000 |
|--|---------------------------------|---------------------------------|
| ASSETS | | |
| Non-current assets | | |
| Investments in subsidiaries | 130,967 | 143,093 |
| | 130,967 | 143,093 |
| Current assets | | |
| Prepayments and other receivables | 290 | 326 |
| Amounts due from subsidiaries | 40,693 | 32,842 |
| Cash and cash equivalents | 281 | 771 |
| | 41,264 | 33,939 |
| Total assets | 172,231 | 177,032 |
| EQUITY | | |
| Equity attributable to owners of the Company | | |
| Share capital | 3,508 | 3,508 |
| Other reserves | 156,347 | 171,667 |
| Retained earnings | 11,480 | 776 |
| | 171,335 | 175,951 |
| LIABILITIES | | |
| Current liabilities | | |
| Amounts due to subsidiaries | 687 | 697 |
| Other payables and accruals | 209 | 384 |
| | 896 | 1,081 |
| Total equity and liabilities | 172,231 | 177,032 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 FINANCIAL POSITION AND RESERVES MOVEMENT OF THE COMPANY *(continued)*

| | Share premium HK\$'000 | Exchange reserves HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 |
|------------------------------------|------------------------------|----------------------------------|----------------------------------|-------------------|
| Year ended 31 December 2021 | | | | |
| Balance at 1 January 2021 | 179,753 | (14,030) | 69,514 | 235,237 |
| Loss for the year | – | – | (12,624) | (12,624) |
| Dividends paid | – | – | (56,114) | (56,114) |
| Currency translation differences | – | 5,944 | – | 5,944 |
| Balance at 31 December 2021 | 179,753 | (8,086) | 776 | 172,443 |
| Year ended 31 December 2022 | | | | |
| Balance at 1 January 2022 | 179,753 | (8,086) | 776 | 172,443 |
| Profit for the year | – | – | 10,704 | 10,704 |
| Dividends paid | – | – | – | – |
| Currency translation differences | – | (15,320) | – | (15,320) |
| Balance at 31 December 2022 | 179,753 | (23,406) | 11,480 | 167,827 |

36 SUBSEQUENT EVENT

In January 2023, Shantou Xinda offered unsecured loans amounting to RMB5,800,000 (equivalent to HK\$6,493,000) to independent third party, with an interest rate of 18% per annum, maturing by June 2023. As of the date of this report, RMB5,800,000 (equivalent to HK\$6,493,000) is still outstanding and not yet due for repayment.

FIVE YEARS FINANCIAL SUMMARY

RESULTS

| | Year ended 31 December 2022 HK\$'000 | Year ended 31 December 2021 HK\$'000 | Year ended 31 December 2020 HK\$'000 | 9 months ended 31 December 2019 HK\$'000 | Year ended 31 March 2019 HK\$'000 |
|--|---|---|---|--|--|
| Revenue | 194,536 | 404,559 | 373,394 | 313,466 | 262,187 |
| Operating (loss)/profit | (58,344) | 46,045 | 112,916 | 93,191 | 59,991 |
| Finance income — net | 64 | 1,618 | 3,843 | 7,068 | 9,083 |
| (Loss)/profit before income tax | (58,280) | 47,663 | 116,759 | 100,259 | 69,074 |
| Income tax credit/(expense) | 4,910 | (11,188) | (23,477) | (18,777) | (13,624) |
| (Loss)/profit for the period/year | (53,370) | 36,475 | 93,282 | 81,482 | 55,450 |
| Attributable to | | | | | |
| Owners of the Company | (53,107) | 36,996 | 94,275 | 81,442 | 56,296 |
| Non-controlling interests | (263) | (521) | (993) | 40 | (846) |
| | (53,370) | 36,475 | 93,282 | 81,482 | 55,450 |
| Assets, Liabilities and Non-controlling Interests | | | | | |
| Total assets | 577,266 | 732,977 | 646,629 | 529,855 | 484,883 |
| Total liabilities | (216,006) | (282,160) | (189,691) | (146,750) | (117,471) |
| Total equity | 361,260 | 450,817 | 456,938 | 383,105 | 367,412 |
| Non-controlling interests | (6,229) | (6,519) | (5,778) | (4,486) | (4,724) |