China TianYF Holdings Group Limited

(Incorporated in the Cayman Islands with limited liability) Stock Code: 8196

ANNUAL REPORT 2022

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. XIE Yang *(Chairman & Chief Executive Officer)*
Mr. GAO Xue Feng (appointed on 28 January 2022)
Mr. ZHAO Yan Wei (appointed on 10 March 2022)
Mr. HE Xuan Xi

Non-executive Directors

Ms. GONG Lan Lan

Independent Non-executive Directors

Ms. BAI Shuang
Mr. HA Cheng Yong
Mr. TSE Chi Wai

BOARD COMMITTEES

Audit Committee

Mr. TSE Chi Wai *(Chairman)*
Mr. HA Cheng Yong
Ms. BAI Shuang

Remuneration Committee

Mr. HA Cheng Yong *(Chairman)*
Ms. BAI Shuang
Mr. XIE Yang

Nomination Committee

Mr. XIE Yang *(Chairman)*
Ms. BAI Shuang
Mr. TSE Chi Wai

COMPLIANCE OFFICER

Mr. HE Xuan Xi

COMPANY SECRETARY

Mr. TSUI Kan Chun *(HKACG, CPA)*

AUTHORISED REPRESENTATIVES

Mr. XIE Yang
Mr. TSUI Kan Chun

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Guangzhou Economic and Technological Development District Branch
No. 2 Xiangxue 2nd Road
Kaichuang Avenue North
Luogang District
Guangzhou City
PRC

Shanghai Pudong Development Bank
Guangzhou Branch
No. 12 Zhujiang Road West
Tianhe District
Guangzhou City
PRC

REGISTERED OFFICE

Cricket Square
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P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Science City
High-tech Industrial Development Zone
Guangzhou, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wah Hen Commercial Centre,
383 Hennessy Road,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

AUDITOR

ZHONGHUI ANDA CPA Limited
23/F, Tower 2, Enterprise Square Five,
38 Wang Chiu Road,
Kowloon Bay, Kowloon,
Hong Kong

COMPANY WEBSITE

www.greatwater.com.cn

GEM STOCK CODE

8196

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of Directors (the "**Board**") of the Company, I would like to present the annual report of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2022.

ANNUAL REVIEW

The shares of the Company (the "**Shares**") became listed on the GEM of the Stock Exchange on 9 December 2015 by way of placing (the "**Placing**") (the "**Listing**").

As the three-year pandemic has ended in China as well as the rest of the world in 2022, comprehensive re-opening started in China at the end of 2022, despite problems such as there being a sudden increase in number of infected cases and there being the enormous pressure on the medical as well as other related systems in a short period of time, it is still the beginning of the Year of Rabbit in China welcoming the blossoming days in warm spring, when the economy is regaining its vitality. According to relevant statistics, the economy of China has shown a relatively obvious recovery at the beginning of 2023.

For the year ended 31 December 2022, revenue of the Group increased by approximately RMB138,372,000 or approximately 116.9% to approximately RMB256,749,000 compared to approximately RMB118,377,000 in 2021. For the year ended 31 December 2022, the Group recognized revenue from engineering, procurement and construction projects ("**EPC Projects**") of approximately RMB10,634,000, revenue from construction projects other than EPC Projects ("**Construction Projects**") of approximately RMB1,675,000, revenue from equipment projects ("**Equipment Projects**") of approximately RMB218,795,000, revenue from the development, construction and operating agreement of a sewage treatment project ("**Service Concession Arrangement**") of approximately RMB16,014,000 and revenue from other environmental protection projects of approximately RMB9,631,000. For the year ended 31 December 2021, revenue from EPC Projects of approximately RMB19,800,000, revenue from Construction Projects of approximately RMB286,000, revenue from Equipment Projects of approximately RMB72,792,000, revenue from Service Concession Arrangement of approximately RMB19,244,000 and revenue from other environmental protection projects of approximately RMB6,255,000 were recognized.

For the year ended 31 December 2022, loss attributable to owners of the Company was approximately RMB11,547,000, representing a decrease of approximately RMB5,495,000 or about 32.2% as compared to approximately RMB17,042,000 for the year ended 31 December 2021.

The significant increase in revenue and the decrease in net loss attributable to owners of the Company are mainly due to the recognition of the progress income of approximately RMB203 million for a large-scale municipal project in the Greater Bay Area for wastewater treatment facility, which contributed to the increase in the revenue and the decrease in net loss attributable to owners of the Company.

CHAIRMAN'S STATEMENT

OUTLOOK

Last three years, the Group was able to make investment in market fields and regions which were relatively mature and stable and to which we were relatively familiar with limited resources by relying on a relatively conservative business strategy, keeping an eye on cash flow and customer qualifications and focusing on the Greater Bay Area and the Vietnamese market. Therefore, we could luckily "survive the winter" amid the unpredictable development of the pandemic and the possibility of acute change in epidemic prevention policies. Although the performance of the Group in the past three years has indeed fallen behind expectation, the Group was able to attain a satisfactory result on the essential task of "maintaining operations".

In terms of business, the Group has adjusted the allocation of resources for business development as mentioned previously. First of all, the Group would increase its investment in the Vietnamese market. The Group believes that the Vietnamese market is recovering generally and significantly, and we have many years of successful experience in our investments in Vietnam which is also attractive to long-term customers and new customers to a certain extent. In 2022, the Vietnam project, which was delayed due to the pandemic, was resumed, and a new business contract which worth tens of millions of Renminbi was signed between the Group and the project client at the beginning of 2023. The Group believes that Vietnam will gradually become one of the key markets developed by the Group. As to the local market, the business strategy in place since 2021 will continue to be adopted, focusing on the Greater Bay Area. For the customers in long-term cooperation in the Greater Bay Area, the Group has invested relatively more resources in establishing and maintaining our relationships. We believe that good relationship with customers and their high recognition will be favourable to the Group's future business development. When it comes to project implementation, the Group also has good performance. A large-scaled project in the Greater Bay Area contributed approximately RMB203 million in revenue to the Group for the year of 2022 in general. Therefore, the overall revenue of the Group amounted to approximately RMB257 million in 2022, representing a significant reduction in losses for a single year, as compared to the past few years.

In spite of the economic recovery in China, it would not be optimistic "immediately" for the business environment that the Group faces when various types of challenges remain based on our judgment. For instance, (i) As Renminbi is still under pressure for depreciation, this will further undermine the purchasing power of customers. After suffering from the pandemic for three years, the further decline in customers' purchasing power will result in an increasing number of people opt to temporarily "tighten their budgets". It is believed that it takes time for important indicators such as investment level, liquidity and purchase desire to "return to the peak". As a result, we are facing the pressure of "reduction in two ways", which has shrunk the availability of the "immediate effect" of "returning to the peak" for the economy of China, given the increase in operating costs and decrease in revenue; (ii) The global political situation has negatively affected the global economy, China's economy and Chinese companies. After the comprehensive re-opening of China, there would be a vast number of enterprises and products re-entering the global trading system, when comprehensive re-opening has occurred earlier in foreign countries as compared to China, but it is still uncertain whether the above negative effects will hinder the progress of recovery of global economy; (iii) Affected by the pandemic for three years, the pressure of living in urban cities has become higher, leading to the "reverse" migration of domestic population, which means that "counter-urbanization" is more popular than "urbanization". However, relatively more economic activities have come from cities, especially medium and large cities, in China currently. The speed of counter-urbanization would directly affect the recovery and redevelopment of the urban economy; and (iv) As the mentality of the general public in China has been very different after the three-year pandemic, consumption concepts and habits may differ upon the comprehensive re-opening. It is currently difficult to determine whether the usual modes of economic activities and the existing types of businesses can adapt to the new consumption concepts and habits. Consequently, it is possible that economic recovery may not appear in some traditional industries after the comprehensive re-opening.

Therefore, under this general environment, the Group believes that prudent selection of customers, stable income, costs control and attention on cash flow should be maintained as the business strategies of the Group in 2023 and even 2024, as in the past three years. In addition, the Group has been paying attention to the ever-changing market demands and considering the capacity and growth of markets in different regions so as to seek development opportunities for new businesses.

We may aspire for a better future when the time for comprehensive re-opening has come, but cannot be unduly optimistic in view of the present. The Group is of the opinion that increasing prudence and pragmatism should be our operation and management style, whilst developing mainstay business, protecting cash flow and stabilizing the operations of the Group will remain as the Group's operating objectives. Therefore, the Directors and the management of the Group believe that our state of affairs in 2023 will be improved seemingly as compared to the past three years. Nonetheless, the Group shall remain cautious, hoping for better achievement empirically by working hard and working "step by step".

APPRECIATION

On behalf of the Board, I wish to take this opportunity to express my sincere gratitude to the shareholders of the Company (the "**Shareholders**"), business partners, customers, suppliers and subcontractors for their continued support to the Group. I would also like to express my heartfelt appreciation to the management and all the staff for their diligence and valuable contribution throughout the year.

Last but not least, the Group sincerely wishes the shareholders of the Group, the management, employees, business partners, customers, suppliers, subcontractors and our peers of the environmental protection industry healthy and safe.

Xie Yang
Chairman

Guangzhou, the PRC
22 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a provider of wastewater and drinking water treatment engineering services in the People's Republic of China (the "**PRC**" or "**China**"). The main business of the Group is the provision of engineering services for wastewater and drinking water treatment facilities. The Group acts either as the contractor, who is responsible for the whole project from launch to final operational management (the "**EPC Projects**"), or as the equipment contractor, who is responsible for providing technical advice and equipment procurement services for the project (the "**Equipment Projects**"). Since mid-2020, the Group started operating a sludge treatment service concession arrangement (the "**Service Concession Arrangement**") in a wastewater treatment plant located in Guangzhou. The Group is also engaged in other environmental protection projects, the provision of operating and maintenance services (the "**O&M Projects**") for customers in connection with the management of wastewater treatment and drinking water treatment facilities, as well as consultation services in relation to the improvement of wastewater and drinking water treatment facilities of various constructions.

FINANCIAL REVIEW

Operating revenue

For the year ended 31 December 2022, the Group's operating revenue amounted to approximately RMB256,749,000 representing an increase of approximately 116.9% as compared to approximately RMB118,377,000 for the year ended 31 December 2021.

EPC Projects and Construction Projects

For the EPC Projects, the Group assumes the role of the main contractor and is in charge of the overall project management of the construction of a treatment plant from launch to operation for a predetermined contractual amount. As an engineering, procurement and construction contractor, the Group provides engineering design of the treatment facilities, procures necessary raw materials and appoints sub-contractors to construct the facilities. The Group also engages in construction projects related to other environmental protection sectors (such as soil remediation projects and flue gas treatment projects, involving the provision of engineering and procurement services for the project owner).

— ***Revenue relating to EPC Projects***

For the year ended 31 December 2022, the revenue generated from EPC Projects relating to wastewater and sludge treatment projects under construction and related business was approximately RMB10,634,000 (2021: approximately RMB19,800,000), representing a decrease of approximately 46.3% over the corresponding period in 2021. The decrease in revenue from EPC Projects for the year ended 31 December 2022 was primarily attributable to the recognition of revenue of approximately RMB10,634,000 from ten small-sized EPC Projects. In contrast, the revenue from EPC Projects for the year ended 31 December 2021 was derived from recognition of revenue of approximately RMB13,265,000 from one large-scale EPC Project and of approximately RMB6,535,000 from five small-sized EPC Projects.

— ***Revenue relating to Construction Projects***

For the year ended 31 December 2022, the revenue generated from Construction Projects was approximately RMB1,675,000 (2021: approximately RMB286,000), representing an increase of approximately 485.7% over the corresponding period in 2021. The increase in revenue from Construction Projects for the year ended 31 December 2022 was primarily attributable to the recognition of revenue of approximately RMB1,675,000 from one Construction Project. In contrast, the revenue from Construction Projects for the corresponding period in 2021 was derived from three small-sized Construction Projects in the amount of approximately RMB286,000.

Equipment Projects

For the Equipment Projects, the Group mainly provides procurement services to a pre-defined section of a project. In determining the equipment and machinery best suited for the project operator's requirements, the Group's technical team often needs to work closely with the customers in identifying, evaluating and selecting different equipment before the procurement team comes into play.

For the year ended 31 December 2022, the revenue generated from Equipment Projects amounted to approximately RMB218,795,000 (2021: approximately RMB72,792,000), representing an increase of approximately 200.6% as compared to the corresponding period in 2021. The increase in revenue from Equipment Projects for the year ended 31 December 2022 was primarily attributable to the recognition of revenue of approximately RMB203,412,000 from one large-scale Equipment Project and of approximately RMB15,383,000 from seven small-sized Equipments Projects. In contrast, the revenue from Equipment Projects for the corresponding period in 2021 was derived from the recognition of revenue of approximately RMB49,142,000 from two large-scale Equipment Projects and of approximately RMB23,650,000 from ten small-sized Equipment Projects.

Service Concession Arrangement

For the Service Concession Arrangement, the Group acquired a sludge treatment project in a wastewater treatment plant located in Dashadi from Guangzhou Sewage in the third quarter of 2018. The Group, as a contractor, is responsible for the development, construction and operation of the sludge treatment project for a term of 10 years. The construction of the project was completed and the plant passed the official examination in mid-2020 and since then, the Group has commenced its operation.

For the year ended 31 December 2022, the revenue generated from the Service Concession Arrangement segment was approximately RMB16,014,000 (2021: approximately RMB19,244,000), representing a decrease of approximately 16.8% as compared to the corresponding period in 2021. The decrease in revenue from Service Concession Arrangement for the year ended 31 December 2022 was primarily attributable to the recognition of revenue of approximately RMB15,056,000 from service income and approximately RMB958,000 from interest income. In contrast, the revenue for the corresponding period in 2021 was derived from the recognition of revenue of approximately RMB1,238,000 in construction work, approximately RMB16,969,000 from service income and approximately RMB1,037,000 from interest income of the Service Concession Arrangement.

Others

The revenue under the other segment included revenue attributable to O&M Projects and technical advisory services. As at 31 December 2022, the Group had one sludge treatment O&M project, two wastewater treatment O&M Projects and three drinking water treatment O&M Projects on hand.

For the year ended 31 December 2022, the revenue generated from the rendering of maintenance services amounted to approximately RMB9,631,000 (2021: approximately RMB6,255,000), representing an increase of approximately 54.0% as compared to the corresponding period in 2021. The increase was primarily attributable to (i) four technical advisory projects during the year ended 31 December 2022 with revenue contribution of approximately RMB7,087,000 as compared to two technical advisory projects with revenue contribution of approximately RMB4,300,000 in the corresponding period in 2021; and (ii) O&M projects which contributed approximately RMB2,544,000 in revenue during the year ended 31 December 2022 as compared to approximately RMB1,955,000 in the corresponding period in 2021.

Cost of sales

For the year ended 31 December 2022, the cost of sales of the Group amounted to approximately RMB233,184,000 (2021: approximately RMB102,948,000), representing an increase of approximately 126.5% or approximately RMB130,236,000 compared to the corresponding period in 2021.

The increase in cost of sales was mainly due to the corresponding increased operating revenue for the year ended 31 December 2022. The cost of inventories sold increased to approximately RMB204,022,000 for the year ended 31 December 2022 from approximately RMB72,132,000 for the year ended 31 December 2021. The cost of construction contracting decreased to approximately RMB23,892,000 for the year ended 31 December 2022 from approximately RMB27,120,000 for the year ended 31 December 2021. The cost of services provided increased to approximately RMB5,270,000 for the year ended 31 December 2022 from approximately RMB3,696,000 for the year ended 31 December 2021.

Gross profit

For the year ended 31 December 2022, the gross profit of the Group was approximately RMB23,565,000 (2021: approximately RMB15,429,000), representing an increase of approximately 52.7% or approximately RMB8,136,000 as compared to the corresponding period in 2021. The increase in gross profit of the Group was mainly attributable to the corresponding increase in operating revenue for the year ended 31 December 2022.

Other income and gains

For the year ended 31 December 2022, other income and gains amounted to approximately RMB2,659,000 (2021: approximately RMB3,465,000), representing a decrease of approximately 23.3% or approximately RMB806,000 as compared to the corresponding period in 2021. The decrease was mainly attributable to there being fair value gain on investment properties amounted to approximately RMB900,000 in 2021 but there was fair value loss in investment properties in 2022, which was recorded as other expenses.

Selling and distribution expenses

For the year ended 31 December 2022, the selling and distribution expenses of the Group amounted to approximately RMB1,630,000 (2021: approximately RMB1,397,000), representing an increase of approximately 16.7% or approximately RMB233,000 compared to the corresponding period in 2021. The increase in the selling and distribution expenses was mainly attributable to the increase in business entertainment fees of approximately RMB229,000.

Administrative expenses

For the year ended 31 December 2022, the administrative expenses of the Group amounted to approximately RMB25,197,000 (2021: approximately RMB26,733,000), representing a decrease of approximately 5.7% or approximately RMB1,536,000 compared to the corresponding period in 2021. The decrease in the administrative expenses was mainly attributable to the decrease in depreciation and amortization of approximately RMB1,538,000.

Other expenses

For the year ended 31 December 2022, the other expenses amounted to approximately RMB5,853,000 (2021: approximately RMB1,697,000) representing an increase of approximately 244.9% or approximately RMB4,156,000 compared to the corresponding period in 2021. The increase in other expenses was mainly attributable to that being fair value loss on investment properties of approximately RMB5,355,000 in 2022, whilst there was fair value gain on investment properties of approximately RMB900,000 in 2021, which was recognised as the Group's other income and gains. The effect of fair value loss on investment properties was partly set-off by exchange difference gain of approximately RMB1,342,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss for the year

The loss for the year ended 31 December 2022 amounted to approximately RMB11,547,000 (2021: loss of approximately RMB17,042,000), representing a decrease of approximately 32.2% or approximately RMB5,495,000 as compared to the corresponding period in 2021. The decrease for the year was mainly attributable to the recognition of the progress income of approximately RMB203 million because of a large-scale municipal project in the Greater Bay Area for wastewater treatment facility, which contributed to the increase in the revenue and the decrease in loss for the year..

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil), in order to cope with the future business development of the Group. There is no arrangement under which a shareholder of the Company has waived or agreed to waive any dividend.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 9 December 2015, since then there was no change in the capital structure of the Group. The capital of the Company comprises only of ordinary shares (the "**Share**").

As at 31 December 2022, the total equity attributable to the shareholders of the Company was approximately RMB71,053,000 (2021: approximately RMB74,823,000). The Group continued to maintain a healthy financial position with cash and cash equivalents amounted to approximately RMB55,260,000 (2021: approximately RMB46,009,000). The Group's net current liabilities was approximately RMB4,286,000 (2021: net current liabilities was approximately RMB6,703,000). Based on the Group's existing cash and cash equivalents on hand and bank facilities available to the Group, the Group has adequate financial resources to fund the working capital required for its business operations in the coming year. There was no hedging for any financial instruments.

During the year ended 31 December 2022, the Group's cash and cash equivalents were mainly denominated in RMB, Hong Kong dollars, VND and US dollars and they were placed in reputable financial institutions as deposits with maturity dates falling within one year. This is in line with the Group's treasury policy to maintain liquidity of its funds and this will continue to contribute stable income to the Group.

As at 31 December 2022, the Group had general banking facilities amounted to approximately RMB25,000,000 (2021: approximately RMB75,000,000). The total borrowing drawn down from the banking facilities of the Company as at 31 December 2022 amounted to RMB25,000,000 (2021: RMB38,497,000). The banking facilities were secured by the pledge of the Group's land and buildings. For details of the pledged assets, please refer to the paragraph headed "Charges on the Group's Assets" below.

GEARING RATIO

As at 31 December 2022, the Group's gearing ratio (being the net debt of the Group divided by its total capital plus net debt) was 72% (2021: 67%). Net debt of the Group includes an interest-bearing bank borrowing, trade payables and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Company.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

There was no significant investment held by the Group for the year ended 31 December 2022.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2022.

COMMITMENTS

The contractual operating commitments of the Group were primarily related to the purchases of items of equipment for projects. As at 31 December 2022, the Group's contractual operating commitments amounted to approximately RMB4,175,000 (2021: approximately RMB158,149,000).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group does not have future plans for material investments and capital assets as at the date of this report.

CONTINGENT LIABILITIES

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

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2022, the Group's building, investment properties and leasehold land were pledged to secure general banking facilities granted to the Group. Details of charges on the Group's assets are set out in notes 17, 18 and 19 to the consolidated financial statements, respectively.

FOREIGN EXCHANGE EXPOSURE

The Group's main operations are in the PRC with most of its transactions settled in RMB. The Directors are of the opinion that the Group's exposure to foreign exchange risk is insignificant. During the year ended 31 December 2022, the Group did not hedge any exposure to foreign exchange risk.

ADVANCES TO AN ENTITY

As at 31 December 2022, the Group did not provide any advances to any entity outside the Group.

PLEDGING OF SHARES BY THE CONTROLLING SHAREHOLDERS

As at 31 December 2022, there was no pledging of Shares by the controlling shareholders of the Company (the "**Controlling Shareholders**").

LOAN AGREEMENTS OF THE GROUP

As at 31 December 2022, the Group did not enter into any loan agreement with covenants relating to specific performance of the Controlling Shareholders.

During the year ended 31 December 2022, the Group did not breach any terms of agreement in respect of any loan that is significant to the Group's operations.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

As at 31 December 2022, the Group did not provide any financial assistance and guarantees to affiliated companies of the Group.

SHARE OPTION SCHEME

On 17 June 2022, the Company adopted a share option scheme (the "**Share Option Scheme**") in accordance with Chapter 23 of the GEM Listing Rules. For principal terms of the Share Option Scheme, please refer to the circular of the Company dated 25 May 2022. On 29 June 2022, the Company subsequently granted 18,000,000 share options (the "**Option(s)**") to certain Directors and employees of the Company to subscribe for an aggregate of 18,000,000 Shares pursuant to the terms of the Share Option Scheme.

No Directors and employees have been granted and will be granted in excess of the 1% individual limit, and no related entity participant or service provider have been granted and will be granted Options in any 12-month period exceeding 0.1% of the Shares in issue.

Details of the Share Option Scheme

(1) Purpose

The purpose of the Share Option Scheme is to (i) motivate the eligible persons to work hard and provide for the Group's future development; (ii) provide the eligible persons with incentives for their contributions to the Group; and (iii) enhance the Group's ability to attract and retain individuals with outstanding skills and extensive experience.

(2) Participants

The eligible persons to be granted Options under the Share Option Scheme include (i) any current employee, executive or officer of the Group; or (ii) any Director (including non-executive Director and independent non-executive Director) of the Company whom the Board or its authorized person considers at its sole discretion has made or will make contributions to the Group. The Board will have the sole discretion to consider and determine which eligible persons are to be granted Options based on the Directors' opinion as to such eligible persons' contribution to the development and growth of the Group.

(3) The maximum number of Shares available for issue

The total number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme shall not in aggregate exceed 18,000,000 Shares, representing 6% of the total number of Shares in issue as at the date of the adoption of the Share Option Scheme and as at the date of this annual report.

(4) The maximum entitlement of each participant

Grant of Options to non-connected persons

Subject to the paragraph below in relation to the grant of Options to connected persons, the total number of Shares issued and which may fall to be issued upon exercise of Options under the Share Option Scheme and the share options granted under any other share option schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of Options to a grantee under the Share Option Scheme would result in the Shares issued and to be issued upon exercise of all Options granted and proposed to be granted to such person (including exercised, cancelled and outstanding Options) under the Share Option Scheme and any other share option scheme of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by the Shareholders in general meeting with such grantees and their close associates (or his associates if the participant is a connected person)abstaining from voting.

Grant of Options to core connected persons

The granting of any Option to any Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Option).

In addition, where any grant of Options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(1) representing in aggregate over 0.1% of the Shares in issue as at the date of grant; and

(2) having an aggregate value, based on the closing price of the Shares on the offer date of each grant, in excess of HK$5 million;

such further grant of Options must be approved by the Shareholders in general meeting. The grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting.

(5) Time of acceptance and exercise of Options

An Option may, subject to the terms and conditions upon which such Option is granted, be exercised in whole or in part by the grantee giving notice in writing to the Company in such form as the Board may from time to time determine stating that the Option is there by exercised and the number of Shares in respect of which it is exercised. An Option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted. The period during which an Option may be exercised will be determined by the Board in its absolute discretion, save that no Option may be exercised more than 10 years after the date of grant.

(6) Vesting Period

The vesting period under the Share Option Scheme is 3 years.

(7) Exercise price for the Shares

The exercise price of the Options granted under the Share Option Scheme shall be the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

(8) Grant offer letter and notification of grant of Options.

An offer shall be deemed to have been accepted and the Option to which the offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of the offer duly signed by the grantee with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company within such time as may be specified in the offer, which must be received by the Company within ten business days from the date of grant. Such remittance shall in no circumstances be refundable.

To the extent that the offer is not accepted within the time specified in the offer, it will be deemed to have been irrevocably declined.

(9) The duration of the Share Option Scheme

The Share Option Scheme shall be valid and effective for the period of 10 years from the date of adoption of the Share Option Scheme (after which, no further Options shall be offered or granted under the Share Option Scheme), but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Options granted prior thereto and remain outstanding. As at the date of this report, the remaining life of the Share Option Scheme is approximately 9 years.

Name of grantee	Date of grant	Closing price of the securities immediately before the date on which the Options were granted (HKD per share)	Fair value at the date of grant[1]	Exercise period	Vesting Period	Exercise price (HKD)	Balance as at 1 January 2022	Granted during the period	Exercised during the period	Cancelled/ forfeited/ lapsed during the period	Balance as at 31 December 2022
Directors											
Mr. XIE Yang	29 June 2022	1.12	HKD670,352	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032	30 June 2023	1.19	–	1,200,000	–	–	1,200,000
			HKD502,764	Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032	30 June 2024	1.19	–	900,000	–	–	900,000
			HKD502,764	Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032	30 June 2025	1.19	–	900,000	–	–	900,000
Mr. GAO Xue Feng	29 June 2022	1.12	HKD670,352	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032	30 June 2023	1.19	–	1,200,000	–	–	1,200,000
			HKD502,764	Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032	30 June 2024	1.19	–	900,000	–	–	900,000
			HKD502,764	Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032	30 June 2025	1.19	–	900,000	–	–	900,000
Mr. ZHAO Yan Wei	29 June 2022	1.12	HKD670,352	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032	30 June 2023	1.19	–	1,200,000	–	–	1,200,000
			HKD502,764	Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032	30 June 2024	1.19	–	900,000	–	–	900,000
			HKD502,764	Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032	30 June 2025	1.19	–	900,000	–	–	900,000

Name of grantee	Date of grant	Closing price of the securities immediately before the date on which the Options were granted (HKD per share)	Fair value at the date of grant[1]	Exercise period	Vesting Period	Exercise price (HKD)	Balance as at 1 January 2022	Granted during the period	Exercised during the period	Cancelled/ forfeited/ lapsed during the period	Balance as at 31 December 2022
Mr. HE Xuan Xi	29 June 2022	1.12	HKD223,452	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032	30 June 2023	1.19	–	400,000	–	–	400,000
			HKD167,589	Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032	30 June 2024	1.19	–	300,000	–	–	300,000
			HKD167,589	Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032	30 June 2025	1.19	–	300,000	–	–	300,000
Others											
Other Employees	29 June 2022	1.12	HKD1,427,226	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032	30 June 2023	1.19	–	3,200,000	–	–	3,200,000
			HKD1,070,419	Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032	30 June 2024	1.19	–	2,400,000	–	–	2,400,000
			HKD1,070,419	Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032	30 June 2025	1.19	–	2,400,000	–	–	2,400,000

Notes:

(1) Please refer to Note 35 to the consolidated financial statements for the accounting standard and policy adopted in calculating the fair value of the Options as at the date of grant.

Since the Company only adopted the Share Option Scheme on 17 June 2022, it was not applicable for the Company to set out the number of Options available for grant under the Share Option Scheme as at 1 January 2022. Given that the maximum number of Shares which may be issued pursuant to the Share Option Scheme is 18,000,000 Shares, and the Company granted 18,000,000 Shares under the Share Option Scheme during the Period, no more Shares are available for grant under the Share Option Scheme as at 31 December 2022.

Given no Options were exercised during the year ended 31 December 2022, it is not applicable for the Company to set out the number of Options exercised during the year ended 31 December 2022 with the exercise price and the weighted average closing price of the Shares immediately before the dates on which the Options were exercised as required under Rule 23.07(1)(d) GEM Listing Rules.

The number of Shares that may be issued in respect of Options granted under the Share Option Scheme during the year ended 31 December 2022 divided by the weighted average number of Shares of the relevant class in issue of the same period is 300,000,000 Shares.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, the Group had 69 employees (2021: 88 employees). Employee costs amounted to approximately RMB21.5 million for the year ended 31 December 2022 (2021: approximately RMB20.7 million). The remuneration policy of the Group is to provide remuneration packages, including salary and various kinds of bonuses to reward employees' outstanding performance and contribution to the Group. The Company has also adopted the Share Option Scheme on 17 June 2022. In addition, the Board will review and determine the remuneration and compensation packages of our Directors and senior management with the recommendation from the remuneration committee (the "**Remuneration Committee**"). The Group will endeavor to ensure that the employees' salary levels are in line with industry practice and prevailing market conditions and that employees' remuneration is determined based on their performance.

TRAINING AND SUPPORT FOR DIRECTORS AND EMPLOYEES

The Company recognises the importance of keeping the Directors up to date with the latest information of duties and obligations of a director of a company the shares of which are listed on the Stock Exchange and the general regulatory requirements and environment for such listed company. To meet this goal, each newly appointed Director would receive an introductory training regarding the statutory and regulatory obligations of a director of a listed company in Hong Kong. As part of the continuous professional development program, the Company has also kept the Directors updated of any material changes in the GEM Listing Rules and corporate governance practices from time to time. Directors are provided with reading materials summarising the duties and responsibilities in acting as directors from time to time to keep the Directors abreast of such duties and responsibilities.

Periodical training will be provided to the employees of the Group in order to maintain and enhance their professional and technical skills. Those trainings will be organised internally by the Group or will involve courses and forums organised by external parties.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

BUSINESS REVIEW

The business performance of the Group for the year ended 31 December 2022 and the future development of the Group's business are set out in the paragraphs headed "Business review" and "Outlook" respectively under "Management discussion and analysis" section in this report.

An analysis of the Group's performance during the year ended 31 December 2022 using financial performance indicators is provided in the section headed "Management discussion and analysis" in this report.

PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. The Group is principally engaged in the environmental protection business. Details of the Group's subsidiaries as at 31 December 2022 are set out in note 1 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activity during the year ended 31 December 2022.

RESULTS

The results of the Group for the year ended 31 December 2022 and the financial position of the Group as at that date are set out in the consolidated statement on pages 68 to 70.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022.

DIVIDEND POLICY

On 28 December 2018, the Company adopted its dividend policy (the "**Policy**").

The Policy sets out the principles and guidelines that the Company will apply when considering the declaration and payment of dividends to the shareholders of the Company.

Under the Policy, the Company may, subject to the Cayman Companies Law, from time to time in general meeting declare dividends in any currency to be paid to the shareholders of the Company but no dividend shall be declared in excess of the amount recommended by the Board.

The Company has not adopted any pre-determined dividend payout ratio.

The Board has the discretion to declare dividends to the shareholders of the Company, subject to the articles of the association of the Company and all applicable laws and regulations, taking into account the factors set out below:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of Shareholders;
- taxation considerations;
- any contractual, statutory and regulatory restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

The Board will review the Policy as appropriate from time to time. Any amendments to this Policy must be approved by the Board.

FINANCIAL SUMMARY

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statement, is set out on page 138. The summary does not form part of the audited consolidated financial statements.

SHARE CAPITAL

There were no movements in the Company's share capital during the year.

RESERVES

Movements in the reserves of the Group and the Company during the year ended 31 December 2022 are set out in the consolidated statement of changes in equity on page 71 and on page 137, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements during the year ended 31 December 2022 in the property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

The Group's industrial building is located at No. 18, Keyan Road, Science City, High-tech Industrial Development Zone, Guangzhou, the PRC, and is used for office purposes or is leased to independent third parties for rental purposes. The portion used for office purpose by the Group is stated at cost less accumulated depreciation as the buildings in property, plant and equipment. The remaining portion is stated in fair value as investment properties subsequent to initial recognition. Roma Appraisals Limited has valued the property interests of the Group at RMB46.3 million (including portions of the buildings and investment properties) as at 31 December 2022. Details of the investment properties are set out in note 18 to the consolidated financial statements.

As at 31 December 2022, the valuation amounts of the property interests of the Group were RMB46.3 million, in which the valuation amounts of the Group's building for own use were RMB16.1 million. The Group's building for own use are currently booked at cost.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES OF THE COMPANY

Pursuant to the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium and retained profits of the Company are distributable to the Shareholders. As at 31 December 2022, the Company's reserves available for distribution to the Shareholders amounted to approximately RMB68.7 million.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2022, sales to the Group's largest customer accounted for 76.9% (2021: 32.4%) of the total revenue. For the year ended 31 December 2022, the percentage of revenue derived from the Group's five largest customers in aggregate was 95.0% (2021: 75.2%).

For the year ended 31 December 2022, purchases from the Group's largest supplier accounted for 18.4% (2021: 19.6%) of the total cost of sales. For the year ended 31 December 2022, purchases from the Group's five largest suppliers in aggregate accounted for 41.4% (2021: 53.3%) of our total cost of sales.

None of the Directors or any of their respective close associates or any Shareholders which to the Directors' best knowledge, own more than 5% of the Company's issued share capital, had any beneficial interest in any of the Group's five largest customers and suppliers during the year ended 31 December 2022.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to the Group's businesses. The following are the key risks and uncertainties identified by the Group.

Government Policies Risk

The Company is in an industry where regulatory standards play a critical role in influencing the demand for the services. The Company has benefited in the past from the increasing awareness of environmental protection, the heightened wastewater treatment standards in the PRC and the recent PRC economic stimulus plan to increase government spending on infrastructure, including wastewater treatment facilities. However, there can be no assurance that the Company will continue to benefit from these PRC standards, economic stimulus plans, regulations and government policies in the future if there is any change, suspension or withdrawal of such regulations and government policies in the future. Moreover, the PRC government's intentions or announcements should not be regarded as an indication of the future prospects of the industry or the future performance of the Company. Any changes in legislative, regulatory or industrial requirements and government policies in places where the Company operates in and outside the PRC may render certain of its wastewater treatment engineering services redundant or obsolete. Acceptance of new wastewater treatment engineering services may also be affected by the adoption of new government regulations requiring stricter standards. The ability to anticipate changes in regulatory standards and government policies and to develop and introduce water and wastewater treatment processes to keep up with such new regulatory standards and government policies will be a significant factors in the Company's ability to grow and to remain competitive.

If the treatment facilities constructed under the EPC Projects or the equipments procured by the Company fail to comply with these standards, laws and regulations, the customers may be exposed to penalties or fines from the regulatory authorities and the Company may be subject to claims, litigation and legal proceedings for breach of customers' requirements and their technical specifications. Such events could materially and adversely affect the business, financial condition and results of operations of the Company.

Furthermore, there can be no assurance that the regulatory requirements for operating in the wastewater treatment engineering industry (including without limitation technological requirements, capital base and qualifications) will not be changed in the future. If there is any such change to the regulatory requirements, the Group may incur additional costs in complying with the new requirements which may adversely affect the business, results of operation and financial condition of the Group.

Intense Competition Risk

Competition in the market for wastewater treatment engineering services is intense. The Company expects to face more intense competition from existing competitors and new market entrants in the future. The Company competes with a variety of companies, some of which may have longer operating histories, more established reputations for the type of project, better technical expertise, better customer service, better pricing, stronger relationships with municipal governments and industrial companies, greater familiarity with local market conditions, larger client base, larger teams of professional staff and greater financial, technical, marketing and other resources and may be in a better position to develop and expand their range of services and market share. The competitors of the Company may, from time to time, engage in aggressive pricing to gain market share and the Company may be under pressure to offer products at comparable price to maintain its competitiveness. In addition, companies which currently do not compete directly with the Company may expand their business to offer competing wastewater treatment engineering services and the Company cannot give any assurance that they will not compete with it in the future. There is no assurance that the Company will be able to effectively compete with its competitors in winning such projects in the future. If the Company fails to compete successfully against existing or future competitors, the business, financial condition and operating results of the Company will be materially and adversely affected.

Risks arising from the Expansion of New Environmental Protection Business

We have developed a professional image as a wastewater and drinking water treatment engineering service provider in the PRC. Recently, we also plan to expand to other fields of environmental protection. However, there can be no assurance that we can remain profitable in these new business areas. Should we fail to effectively meet the challenges arising from these new business areas, such as (i) shortage of technical staff; (ii) significant technical updates; (iii) intensifying competition; and (iv) significant change in relevant regulations and/or government policies in the new business areas, our business, financial condition and results of operations may be materially and adversely affected.

Change in Preferential Tax Treatment Risk

Under the PRC Enterprise Income Tax (the "**EIT**") Law, enterprises in the PRC are generally subject to a uniform 25% enterprise income tax rate on their worldwide income. Guangzhou Great Water Environmental Protection Company Limited (廣州中科建禹環保有限公司), being our operating subsidiary in the PRC, was subject to 15% enterprise income tax rate during the year ended 31 December 2022 as a result of its accreditation as a High and New Technology Enterprise by the Guangdong Provincial Science and Technology Department and relevant authorities in the PRC. Our current High and New Technology Enterprises certificate was renewed in December 2021 and is effective for a period of three years.

There is no assurance that the current policies in the PRC with respect to the preferential tax treatment the Company currently enjoys will not be unfavourably changed or discontinued, or that the approval for such preferential tax treatment will be granted to the Company in a timely manner. In the event that the termination or expiration of the preferential tax treatment, or the imposition of additional taxes to the Company, its business, financial conditions and results of operations could be adversely affected.

Manpower and Retention Risk

The Company may face the risk of not being able to attract and retain key personnel and talents with appropriate and required skills, experience and competence which would meet the business objectives of the Company. The Company will provide attractive remuneration package to suitable candidates and personnel.

ENVIRONMENTAL POLICY AND PERFORMANCE

Since the establishment in 2001, the Company has been working in the environmental protection industry in China for 21 years. Starting from the wastewater and drinking water treatment engineering business, the Group is now gradually expanding to a wider and more comprehensive environmental protection business.

Throughout all these years, sustainability is regarded as an important concept in the Company's corporate value. Guided by the corporate value and with the aid of a thorough Integrated Management System (the "**IMS**"), which was certified with the international environmental management system ISO14001:2015 and the quality management system ISO9001:2015 standards in 2016, the Company is not only pursuing continuity in business development, but also, most importantly, contributing to a better environment for the Group and the next generation.

The Company's mission is to create positive impacts to the environment in China. To achieve this, as an environmental protection engineering services company in China, the Company aims not only to minimise adverse environmental impacts from operations, but also to bring positive impacts by providing environmental protection solutions to customers.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in the PRC while the Company itself is listed on the GEM. Compliance procedures are put in place to ensure that the Group's establishment and operations accordingly shall comply with relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2022, the Company has complied with all the relevant laws and regulations in the PRC and Hong Kong.

KEY RELATIONSHIPS

Employees

The Company recognises that employees are valuable assets to the Group. Thus the Group provides competitive remuneration package, as well as on-the-job training and development opportunities to attract and motivate the employees. The Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

The Group has also put in place the human resource policy which serves to safeguard terms and conditions of employment as well as the rights and benefits of the employees.

Suppliers and sub-contractors

The Company has developed long-standing relationships with a number of suppliers and sub-contractors and the Company takes great care to ensure that they share its commitment to product quality and business ethics. The Company carefully selects its suppliers and sub-contractors and assesses them on the basis of various criteria including track record, experience, financial strength, reputation, ability to produce high-quality products and constructions for the projects of the Company. The Company also requires them to comply with its anti-bribery policy.

Customers

The Company is committed to be a high quality environmental service provider to its customers. As such, the Company is active in staying in touch with its customers in order to find out about customers' needs and expectation. The Company maintains a customers database and has ongoing communications with its current and potential customers through various channels like having face to face meetings and inviting customers to attend site visits to inspect the work-in-progress and finished projects.

DIRECTORS

The Directors during the year under review and up to the date of this report were as follows:

Executive Directors

Mr. Xie Yang *(Chairman & Chief Executive Officer)*	(appointed on 25 March 2015)
Mr. Gao Xue Feng	(appointed on 28 January 2022)
Mr. Zhao Yan Wei	(appointed on 10 March 2022)
Mr. He Xuan Xi	(appointed on 27 May 2015)

Non-executive Directors

Ms. Gong Lan Lan	(appointed on 25 March 2015)

Independent Non-executive Directors

Ms. Bai Shuang	(appointed on 24 November 2015)
Mr. Ha Cheng Yong	(appointed on 24 November 2015)
Mr. Tse Chi Wai	(appointed on 24 November 2015)

Pursuant to the Company's articles of association (the "**Articles of Association**"), one-third of the Directors will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company ("**AGM**").

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing and is renewable for a further term of three years until terminated by either party by giving not less than three months' notice in writing to the other.

Each of the non-executive Directors and the independent non-executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing and is renewable for a further term of three years, provided that either the Company or the non-executive Directors and the independent non-executive Directors may terminate such appointment at any time by giving at least three months' notice in writing to the other.

None of the Directors proposed for re-election at the AGM of the Company has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACTS

There was no transaction, arrangement or contract of significance to the business of the Group to which the Company, its holding companies or, its subsidiaries, and its controlling shareholders or any of its subsidiaries was a party subsisted during the year ended 31 December 2022, and no Director or an entity connected with the Director is or was materially interested either directly or indirectly in any such transaction, arrangement or contract.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

TAX RELIEF

As at 31 December 2022, according to the laws of the Cayman Islands, holders of listed securities of the Company are not entitled to tax relief for their status as the holder of such securities.

PERMITTED INDEMNITY PROVISION

The Company has arranged appropriate insurance coverage for Directors' liabilities in respect of legal actions against them for corporate activities of the Group. Such insurance coverage has been in force throughout the year ended 31 December 2022.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2022.

EMOLUMENT POLICY

The Company has established a Remuneration Committee in compliance with the GEM Listing Rules. The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the remuneration policy and other remuneration related matters, including benefits-in-kind and other compensation payable to the Directors and senior management of the Company.

Under the remuneration policy of the Company, the Remuneration Committee will consider factors such as corporate and individual performance, salaries paid by comparable companies, time commitment, responsibilities and employment conditions elsewhere in the Group in assessing the amount of remuneration payable to the Directors and senior management.

NON-COMPETITION UNDERTAKINGS

Each of Mr. Xie Yang, Mr. Song Xiao Xing, Ms. Gong Lan Lan ("**Ms. Gong**"), Perfect Wave Holdings Limited, Oceanic Expert Investments Limited, The Thinker Global Limited, Waterman Global Limited, Topman Ventures Limited and Great Time Ventures Limited (collectively, the "**Covenantors**") has entered into a deed of non-competition (the "**Deed of Non-Competition**") on 24 November 2015 in favour of the Company (for itself as and as trustee for each of its subsidiaries), pursuant to which the Covenanters have undertaken, jointly and severally, to the Company that they would not, and that their close associates (except any member of the Group) would not, during the restricted period set out below directly or indirectly, either on their own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise) any business which is or may be in competition with the existing core business of the Group (the "**Restricted Business**"). The "restricted period" stated in the Deed of Non-Competition refers to the period during which (i) the Shares remain listed on the Stock Exchange; (ii) the Covenantors and their close associates, individually or jointly, are entitled to exercise or control the exercise of not less than 30% of the voting power at general meetings of the Company; and/or (iii) the Covenantors remain as a director of any member of the Group. Details of the Deed of Non-Competition are set out in the paragraph headed "Non-Competition Undertaking" in the section headed "Relationship with Controlling Shareholders" of the prospectus of the Company .

Each of the Covenantors (except for Ms. Gong, The Thinker Global Limited and Waterman Global Limited, who no longer hold any interests in the Company and Ms. Gong has also resigned as a director of the Company) (the "**Remaining Covenantors**") confirmed to the Company that they have complied with the Deed of Non-Competition for the year ended 31 December 2022.

In order to ensure the Remaining Covenantors have complied with the Deed of Non-Competition, the following actions have been taken by the Company and the Directors:

(i) the Company required each Remaining Covenantors to give confirmation to the Company on an annual basis as to whether each of them has complied with the Deed of Non-Competition;

(ii) each of the Remaining Covenantors provided to the Company a written confirmation which confirmed their respective compliance with the Deed of Non-Competition for the year ended 31 December 2022 and stated that each of them has not entered into any business which may be in competition with the core business carried on by the Group;

(iii) the independent non-executive Directors reviewed the compliance of each of the Remaining Covenantors with the Deed of Non-Competition during the year ended 31 December 2020 and confirmed to their best knowledge, that the terms of the Deed of Non-Competition have been duly complied with for the year ended 31 December 2022;

(iv) as at the date of this annual report, the Directors are not aware of any other matters which would affect the compliance of the Deed of Non-Competition for the year ended 31 December 2022.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors nor the Controlling Shareholders nor any of their respective close associates (as defined under the GEM Listing Rules) that competes or may compete, either directly or indirectly, with the business of the Group, or of any other conflicts of interest which any such person has or may have with the Group during the year ended 31 December 2022.

DISCLOSURE OF INTERESTS

Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures of the Group and its associated corporations

As at 31 December 2022, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

(i) Long positions in Shares

Name of director	Capacity	Number of Shares (Note 1)	Approximate percentage of the total number of Shares in issue (Note 2)
Mr. XIE Yang (Note 3)	Interest in controlled corporation	91,350,000 (L)	30.45%
Mr. ZHOU Yanwei	Beneficial Owner	15,000,000 (L)	5.00%

Notes:

1. The letter "L" denotes a long position.

2. The percentage were calculated based on 300,000,000 Shares in issue as at 31 December 2022.

3. These Shares are owned by Oceanic Expert Investments Limited which is wholly owned by Perfect Wave Holdings Limited, which is in turn 100% beneficially owned by Mr. Xie Yang. Accordingly, Mr. Xie Yang is taken or deemed to be interested in the 91,350,000 Shares held by Oceanic Expert Investments Limited by virtue of the SFO.

(ii) Long positions in the underlying Shares

Name of Director	Capacity	Number of the underlying Shares	Approximate percentage of shareholding of the issued share capital of the Company (Note)
Mr. XIE Yang	Beneficial Owner	3,000,000	1.00%
Mr. GAO Xue Feng	Beneficial Owner	3,000,000	1.00%
Mr. ZHAO Yan Wei	Beneficial Owner	3,000,000	1.00%
Mr. HE Xuan Xi	Beneficial Owner	1,000,000	0.33%

Note:

The percentage were calculated based on 300,000,000 Shares in issue as at 31 December 2022.

Save as disclosed above, as at 31 December 2022, none of the Directors and chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

The interests of substantial Shareholders and the interests and short position of other persons in the Shares and underlying Shares

As at 31 December 2022, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or chief executive of the Company) in the shares or underlying shares of the Company which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long positions in the Shares

Name of shareholder(s)	Capacity	Number of Ordinary Shares (Note 1)	Approximate percentage of the total number of Shares in issue
Oceanic Expert Investments Limited *(Note 2)*	Beneficial owner	91,350,000 (L)	30.45%
Perfect Wave Holdings Limited *(Note 2)*	Interest in controlled corporation	91,350,000 (L)	30.45%
Great Time Ventures Limited *(Note 3)*	Beneficial owner	44,032,500 (L)	14.68%
Topman Ventures Limited *(Note 3)*	Interest in controlled corporation	44,032,500 (L)	14.68%
Mr. Song Xiao Xing *(Note 3)*	Interest in controlled corporation	44,032,500 (L)	14.68%

Notes:

1. The letter "L" denotes a long position.
2. Mr. XIE Yang beneficially owns the entire issued share capital of Perfect Wave Holdings Limited which in turn wholly owns Oceanic Expert Investments Limited which held 91,350,000 Shares.
3. Mr. SONG Xiao Xing beneficially owns the entire issued share capital of Topman Ventures Limited which in turn wholly owns Great Time Ventures Limited which held 44,032,500 Shares.

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

AUDIT COMMITTEE

The Company had established its audit committee (the "**Audit Committee**") on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules. Details of the role and work performed by the committee are set out in the Corporate Governance Report.

The Audit Committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2022 and is of the view that such results complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

PENSION SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for those employees who are eligible to participate in the MPF Scheme. The employees of the Group's subsidiaries in the PRC are required to participate in a central pension scheme operated by the local municipal government. Particulars of these pension schemes are set out in note 4 to the consolidated financial statements. Both the MPF Scheme and central pension scheme in the PRC are funded by the Company and employees in accordance with the relevant laws and regulations in Hong Kong and the PRC. No forfeited contribution under the defined contribution retirement benefit plans is available to reduce the contribution payable in future years.

RELATED PARTY TRANSACTIONS

There was no loan to and dealing in favor of any Directors of the Company during the year ended 31 December 2022. Details of related party transactions of the Group during the year ended 31 December 2022 are set out in note 38 to the consolidated financial statements. None of the related party transaction constituted connected transaction as defined under Chapter 20 of the GEM Listing Rules. There were no connected transactions of the Group during the year ended 31 December 2022 and the Company has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

During the year ended 31 December 2022, based on the information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained sufficient amount of public float as required under the GEM Listing Rules.

EVENTS AFTER 31 DECEMBER 2022

There are no important events affecting the Group that have occurred since the end of the year ended 31 December 2022.

CLOSURE OF REGISTER OF MEMBERS

The AGM is scheduled to be held on Wednesday, 10 May 2023. The register of members of the Company will not be closed for the purpose of ascertaining the right of shareholders of the Company to attend and vote at the forthcoming AGM to be held on Wednesday, 10 May 2023. However, in order to qualify for attending and voting at the forthcoming AGM, all transfers documents accompanied by the relevant share certificates must be deposited with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 3 May 2023.

AUDITORS

Ernst & Young has resigned as the auditor of the Company with effect from 22 November 2021, as the Company could not reach a consensus with Ernst & Young on the audit fee for the year ended 31 December 2021. For further details in relation to the Company's change of auditor, please refer to the Company's announcement dated 22 November 2021. Save as disclosed above, there is no change in the Company's auditors in any of the preceding three years.

In addition, Zhonghui Anda CPA Limited ("**Zhonghui**"), the current auditor of the Company, will retire at the forthcoming AGM and, being eligible offer themselves for re-appointment. A resolution for the re-appointment of Zhonghui as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

By Order of the Board
Xie Yang
Chairman

22 March 2023

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a good corporate governance standard, with the chairman being primarily responsible for establishing relevant practices and procedures. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate its business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen accountability to Shareholders and creditors. The Board acknowledges the responsibility for reviewing the effectiveness of the Group's internal control and risk management systems. The Board communicates regularly with the Audit Committee and independent advisor to identify, evaluate and manage significant risks associated with the Group's business and operations. Therefore the Board has reviewed and will continue to review and improve the Company's corporate governance practices from time to time.

The Company adopted the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for code provision C.2.1 of the CG Code, that the roles of the chairman and chief executive of the Company should be separate and should not be performed by the same individual, the Board is satisfied that the Company had complied with the CG Code for the year ended 31 December 2022. Mr. Xie Yang ("**Mr. Xie**") is chairman and the chief executive officer of the Company. With extensive experience in the wastewater and water treatment engineering services industry, Mr. Xie is responsible for the Group's overall strategic planning and management of its business. The Board considers that vesting the roles of chairman and chief executive officer in Mr. Xie is beneficial to the business prospects and management of the Group and the balance of power and authority is already ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board comprised of four executive Directors (including Mr. Xie), one non-executive Director and three independent non-executive Directors during the year ended 31 December 2022 and therefore has sufficient independent elements in its composition.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors, its employees, and the directors and employees of its subsidiaries and holding companies, who may likely possess inside information on the Company or its securities, on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for the year ended 31 December 2022.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

As at 31 December 2022, the Board comprised of four executive Directors, one non-executive Director and three independent non-executive Directors. The composition of the Board is as follows:

Executive Directors
Mr. XIE Yang *(Chairman and the Chief Executive Officer)*
Mr. GAO Xue Feng
Mr. ZHAO Yan Wei
Mr. HE Xuan Xi

Non-executive Director
Ms. GONG Lan Lan

Independent Non-executive Directors
Ms. BAI Shuang
Mr. HA Cheng Yong
Mr. TSE Chi Wai

The biographical details of the Directors of the Company are set out under the section headed "Biographical Details of Directors and Senior Management" in this report.

Functions, Roles and Responsibilities of the Board and Management

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to the chief executive officer and senior management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group. The abovementioned personnel should report back and obtain prior approval from the Board before making any significant decisions or entering into any significant commitments on the Company's behalf, and they may not exceed any authority given to them by resolutions of the Board or the Company.

The non-executive Directors do not involve in general management and day-to-day operations of the Group. However, they will provide advice on strategic directions of the Group in the Board meetings.

The independent non-executive Directors bring a wide range of business and financial expertise, experience and independent judgement to the Board, on issues of strategic direction, policies, development, performance and risk management. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, they scrutinise the Company's performance in achieving corporate goals and objectives and monitor performance reporting. By doing so, they are able to contribute positively to the Company's strategy and policies through independent, constructive and informed comments at Board and committee meetings.

Each Director has confirmed that he/she can give sufficient time and attention to the Company's affairs, and has regularly provided information on the number and nature of offices held in public companies or organisations and other significant commitments, including the identities of such companies or organisations and an indication of the time involved.

Permitted Indemnity Provision

The Company has arranged appropriate insurance coverage for Directors' liabilities in respect of legal actions against them for corporate activities of the Group.

Board/Board Committee Meetings

The Board is scheduled to meet in person or through other electronic means of communication at least four times a year to, among other matters, review past financial and operating performance and discuss the Group's direction and strategies. An agenda and accompanying papers together with all appropriate information will be sent to all Directors at least three days before each Board or committee meeting so as to ensure timely access to relevant information. Appropriate notice of at least 14 days for regular Board meetings and reasonable notice for other Board committee meetings will be given to all Directors, who will all be given an opportunity to attend and include matters in the agenda for discussion. Senior management will be invited to join all Board meetings to enhance communication between the Board and the senior management; the Board and each Director will also have separate and independent access to senior management whenever necessary. The company secretary will take detailed minutes of the meetings and keep records of matters discussed and decisions resolved at the meetings, including any concerns raised or dissenting views expressed by Directors, and the voting results of Board meetings fairly reflect Board consensus. Both draft and final versions of the minutes will be sent to all Directors for their comments and records respectively, within a reasonable time after each meeting, and such minutes will be open for inspection with reasonable advance notice by any Director. Directors are entitled to have access to board papers and related materials, and any queries will be responded to fully.

Upon reasonable request to the Board, the Directors can seek independent professional advice in performing their duties at the Company's expense, if necessary. According to the current Board's practice, should a potential conflict of interest involving a substantial Shareholder or Director arise, the matter shall be discussed in a Board meeting, as opposed to being dealt with by written resolution. Independent non-executive Directors with no conflict of interest should be present at such meetings. When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director declares his/her interest and abstains from voting.

DIRECTORS' ATTENDANCE AT BOARD/BOARD COMMITTEE AND GENERAL MEETINGS

A summary of all Directors' attendance at the Board and Board committee meetings and general meetings held during the year 2022 are set out in the following table:

	Attendance/Number of meetings				
Name of Director	**Board meeting**	**Audit Committee meeting**	**Nomination Committee meeting**	**Remuneration Committee meeting**	**Annual general meeting**
Mr. XIE Yang	4/4	N/A	1/1	1/1	1/1
Mr. GAO Xue Feng	4/4	N/A	N/A	N/A	1/1
Mr. ZHAO Yan Wei	4/4	N/A	N/A	N/A	1/1
Mr. HE Xuan Xi	4/4	N/A	N/A	N/A	1/1
Ms. GONG Lan Lan	4/4	N/A	N/A	N/A	1/1
Ms. BAI Shuang	4/4	5/5	1/1	1/1	1/1
Mr. HA Cheng Yong	4/4	5/5	N/A	1/1	1/1
Mr. TSE Chi Wai	4/4	5/5	1/1	N/A	1/1

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee of the Company has been established. In compliance with code provision A.2.1 of the CG Code, the Board as a whole is responsible for performing the corporate governance duties including: (a) to develop and review the Company's policies and practices on corporate governance; (b) to review and monitor the training and continuous professional development of Directors and senior management; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Xie Yang is the chairman of the Board who is primarily responsible for providing leadership to the Board, overseeing the overall operation of the Group and leading and directing the Group's overall business and development strategies. Mr. Xie will also chair the Board and meetings of the nomination committee of the Company (the "**Nomination Committee**") and brief the Board members and Nomination Committee members on the issues arising at the respective meetings to ensure that the Directors receive adequate information in a timely manner which is accurate, clear, complete and reliable. He encourages all Directors to make full and active contribution to the Board's affairs and takes the lead to ensure that the Board acts in the Company's best interests. He aims to ensure constructive relations between executive and non-executive Directors. Mr. Xie is also the chief executive officer of the Company who is primarily responsible for day-to-day management and operation; overseeing risk management; corporate communication and marketing; product development; information technology and accounting matters of the Group. In accordance with code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual and their respective responsibilities should be clearly defined in writing. With extensive experience in the wastewater and water treatment engineering services industry, Mr. Xie is responsible for the Group's overall strategic planning and management of its business. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group and the balance of power and authority is already ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board comprised of four executive Directors (including Mr. Xie), one non-executive Director and three independent non-executive Directors during the year ended 31 December 2022 and therefore has sufficient independent elements in its composition.

Code provision C.2.7 of the CG Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. During the year ended 31 December 2022, one meeting between the chairman of the Board and the non-executive Directors was held.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from the date of the Listing and is renewable for a further term of three years until terminated by either party by giving not less than three months' notice in writing to the other.

Each of the non-executive Directors and the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from the date of the Listing and is renewable for a further term of three years, provided that either the Company or the non-executive Directors and the independent non-executive Directors may terminate such appointment at any time by giving at least three months' notice in writing to the other.

By virtue of article 83(3) of the Articles of Association, the Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Also, any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting. The Board has delegated the power to the Nomination Committee to make recommendations to the Board on the appointment and re-appointment of Directors. The responsibilities of the Nomination Committee are set out in the subheading "Nomination Committee" below. Directors to be appointed will have a formal letter of appointment setting out the key terms and conditions of their appointment.

In compliance with code provision B.2.2 of the CG Code, every Director shall be subject to retirement by rotation at least once every three years. Furthermore, pursuant to article 84(1) of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being shall retire from office by rotation. A retiring Director shall retain office until the close of the meeting at which he/she retires and shall be eligible for re-election thereat.

BOARD INDEPENDENCE

All the Directors have full and timely access to the information of the Company (including but not limited to financial reports, audit results and other relevant data) as well as the advice and services of the company secretary of the Company (the "**Company Secretary**"). So that Board members are equipped with necessary professional advice in their decision-making process, the Board may, in appropriate circumstances, seek independent professional advice at the Company's expenses to assist them. Board members are also encouraged to seek inputs from other members, employees and other stakeholders in appropriate circumstances to ensure that different perspectives are taken into account in the decision-making process. There are formal or informal channels in place to ensure that independent views and inputs are available to the Board.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

According to code provision C.1.4 of the CG Code, all Directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. The Company would arrange and/or introduce suitable training and information for the Directors to ensure they are fully aware of their responsibilities under statute and common law, the GEM Listing Rules and other applicable legal and regulatory requirements. During the year ended 31 December 2022, the Company had arranged seminars on the GEM Listing Rules, the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**") and the SFO for the Directors. All Directors attended at least one of the seminars.

All Directors, namely Mr. Xie Yang, Mr. Gao Xue Feng, Mr. Zhao Yan Wei, Mr. He Xuan Xi, Ms. Gong Lan Lan, Ms. Bai Shuang, Mr. Ha Cheng Yong and Mr. Tse Chi Wai, have confirmed that they had participated in continuous professional development by attending seminars and reading materials during the year ended 31 December 2022, and have provided a record of their training to the Company, in compliance with code provision C.1.4 of the CG Code.

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, to oversee particular aspects of the Company's affairs. All Board committees are established with written terms of reference, which have complied with the CG Code and are available on the Stock Exchange website at www.hkexnews.hk and the Company's website at www.greatwater.com.cn and are available to Shareholders upon request. The Board 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 expense. The Board committees will report back to the Board on their decisions or recommendations.

AUDIT COMMITTEE

The Company had established the Audit Committee on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the effectiveness of the risk management and internal control systems of the Company, make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and review the Company's financial information.

During the year ended 31 December 2022, the Audit Committee comprised of three independent non-executive Directors, namely, Mr. Tse Chi Wai, Ms. Bai Shuang and Mr. Ha Cheng Yong. Mr. Tse Chi Wai is the chairman of the Audit Committee.

During the year ended 31 December 2022, the Audit Committee held five meetings. Those meetings of the Audit Committee was held to review and discuss the consolidated financial statements of the Group and the quarterly, interim and annual results announcements and reports. The Audit Committee is of the view that such results complied with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure had been made. Also, there has been no disagreement between the Directors and the Audit Committee regarding the selection and appointment of the external auditors. The Audit Committee has also reviewed the effectiveness of the risk management and internal control systems and the internal audit function of the Group, as detailed in the section headed "Internal Control and Risk Management" below. All members of the Audit Committee attended the meetings.

REMUNERATION COMMITTEE

The Company had established the Remuneration Committee on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules.

The primary duties of the Remuneration Committee are to review and make recommendations to the Board on the remuneration policy and other remuneration related matters, including benefits-in-kind and other compensation payable to the Directors and senior management.

During the year ended 31 December 2022, the Remuneration Committee comprised of one executive Director and two independent non-executive Directors, namely, Mr. Xie Yang, Ms. Bai Shuang and Mr. Ha Cheng Yong. Mr. Ha Cheng Yong is the chairman of the Remuneration Committee.

During the year ended 31 December 2022, one meeting of the Remuneration Committee was held to make recommendations to the Board on the Company's policy and structure for remuneration of the Directors and the senior management and on the establishment of a procedure for developing policy on such remuneration; to determine the remuneration packages of all the executive Directors and the senior management; to assess the performance of the executive Directors and to approve the terms of their service contracts; and to make recommendations to the Board on the remuneration of the independent non-executive Directors. In addition, the Remuneration Committee also reviewed and approved the Share Option Scheme, which was adopted on 17 June 2022. All members of the Remuneration Committee attended the meeting.

NOMINATION COMMITTEE

The Company had established the Nomination Committee on 24 November 2015 with written terms of reference in compliance with the GEM Listing Rules. The primary duty of the Nomination Committee is to make recommendations to the Board regarding the structure, size and composition of the Board and candidates to fill vacancies on the Board.

During the year ended 31 December 2022, the Nomination Committee comprised of one executive Director and two independent non-executive Directors, namely, Mr. Xie Yang, Ms. Bai Shung and Mr. Tse Chi Wai. Mr. Xie Yang is the chairman of the Nomination Committee.

During the year ended 31 December 2022, one meeting of the Nomination Committee was held to review the structure and composition of the Board, to determine the policy for nomination of Directors, and to review and make recommendations to the Board on adoption of the Board diversity policy. All members of the Nomination Committee attended the meeting.

The Board adopted the view of Board diversity approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Board has in its composition a balance of skills, expertise, qualifications, experience and diversity of perspectives necessary for independent decision making and fulfilling its business needs. The Board will consider a number of aspects when selecting candidates, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments will ultimately be based on merit and the contribution that the selected candidates will bring to the Board, having due regard to the benefits of diversity to the Board.

NOMINATION POLICY

On 28 December 2018, the Company adopted a nomination policy (the "**Policy**").

The Policy applies to the nomination and appointment of Directors.

The Policy:

- sets out the criteria and process in the nomination and appointment of directors of the Company;
- ensures that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company; and
- ensures the Board continuity and appropriate leadership at Board level.

In evaluating and selecting any candidate for directorship, the following factors should be considered:

- Character and integrity.
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy.
- Diversity in all aspects with reference to the diversity policy of the Board.
- Any measurable objectives adopted for achieving diversity on the Board.
- Requirement for the Board to have independent non-executive Directors in accordance with the GEM Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the GEM Listing Rules.
- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and diversity.
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.
- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of Directors and succession planning.

Notwithstanding that the Board has delegated its responsibilities and authority for selection and appointment of directors of the Company to the Nomination Committee of the Company, the ultimate responsibility for selection and appointment of directors of the Company rests with the entire Board.

The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the Policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

DIVERSITY POLICY

On 28 December 2018, the Company has adopted a diversity policy.

The diversity policy applies to the Board.

The Company believes that diversity at the Board level is good for corporate governance and enhances the effectiveness of the Board.

Board nomination and appointments will be made on merit basis based on its business needs from time to time having regards to the Policy while taking into account diversity.

Selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience.

With six male Directors and two female Directors currently in the Board, the Board gender diversity is considered achieved. The Board and the Nomination Committee will continue considering potential successors to the Board to maintain or enhance gender diversity.

For further details in relation to the Company's diversity policy, please refer to the section headed "Nomination Committee" in this annual report.

GENDER DIVERSITY OF GENERAL WORKFORCE

As at 31 December 2022, the Company had 69 employees. Male staff accounted for approximately 70% of the workforce. The general workforce is considered to be with proper gender diversity.

SAFETY COMMITTEE

The Company has established the safety committee (the "**Safety Committee**") in March 2013 which is currently chaired by Mr. Xie Yang and co-managed by Mr. Feng Huan (the Group's vice general manager) and Ms. Chen Shao Juan (the head of human resources and administration department). A Safety Committee meeting is held on a quarterly basis for the purpose of setting strategic guidelines for our safety department to (i) manage occupational health and safety measures relating to our operation; and (ii) monitor the implementation of safety management for the Group. We also designate one safety supervisor to monitor on-site safety management and report any non-compliance to the project manager who will report to the Safety Committee.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board is responsible for overseeing the preparation of financial statements on an on-going concern basis, with supporting assumptions or qualifications as necessary, for each financial period with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and of the results and cash flow for the financial year.

Management of the Company has provided explanation and information to the Board to enable the Board to make an informed assessment of financial and other information put before the Board for approval. This includes monthly management updates to the Board, with a balanced, understandable and sufficiently detailed assessment of the Company's performance, position and prospects, enabling the Board and each Director to discharge their duties under the GEM Listing Rules.

The Group accounts were prepared in accordance with the GEM Listing Rules, the Companies Ordinance, all relevant statutory requirements and applicable accounting standards. The Group has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgements and estimates. The Directors endeavor to ensure a balanced, clear and understandable assessment of the Group's position and prospects in the annual reports, interim reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other regulatory requirements.

The Directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules and the 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.

The responsibility of the Company's auditor, Zhonghui Anda CPA Limited, is set out in the section headed "Independent Auditor's Report" on pages 64 to 67 of this report.

Internal Control and Risk Management

The Board acknowledges its responsibility for maintaining a sound and effective risk management and internal control systems, and reviewing their effectiveness to safeguard the Company's assets and shareholders' interests. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The day-to-day risk management process of the Group, including the process to identify, evaluate and manage significant risks, is coordinated and facilitated by the compliance officer of the Company, Mr. He Xuan Xi, and is overseen by the chief executive officer of the Company, Mr. Xie Yang. The Group has established an internal audit team to conduct internal risk evaluation and review in respect of the Group's business risks, financial risks, compliance risks as well as operational and other risks by submitting relevant reports to the Audit Committee and the Board. Meanwhile, the Audit Committee of the Group also assists the Board by providing independent view of the effectiveness of the financial reporting process and internal control and risk management systems, and overseeing the audit process.

During the year, the internal audit team had reviewed and evaluated the control process and monitored any risk factors. Also, the Group has engaged a professional firm as an independent advisor to hold an annual internal control review and risk management assessment to aid the Group in ensuring the internal controls and risk management systems are functioning adequately.

The Board convened meetings at least annually to discuss business risks, financial risks, compliance risks and operation and other risks. During the year ended 31 December 2022, the Board, through the Audit Committee, has conducted a review of the effectiveness of the risk management and internal control systems, and the internal audit function of the Group, covering all material controls such as financial, operational and compliance controls and risk management functions, and considered that the internal control system and procedures of the Group, including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programs and budget, are adequate and effective and have complied with the provisions of the CG Code during the year ended 31 December 2022.

DISSEMINATION OF INSIDE INFORMATION

The Company has in place a framework for the disclosure of inside information by reference to the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission. The framework sets out the procedures and internal controls for the handling and dissemination of inside information in an appropriate and timely manner, such as steps to ascertain sufficient details, conduct internal assessment of the matter and its likely impact on the Company, seek professional advice where required and verification of the facts. Before the information is fully disclosed to the public, any persons who possess the knowledge of such information must ensure strict confidentiality and must not deal in any of the Company's securities.

SENIOR MANAGEMENT'S REMUNERATION

The remuneration payment of the senior management of the Group (excluding the Directors) in the year ended 31 December 2022 falls within the following band:

	Number of senior management
RMB489,000 to RMB1,083,000 The remuneration includes salaries and pension scheme contributions	5

AUDITOR'S REMUNERATION

The Audit Committee is responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal.

ZHONGHUI ANDA CPA Limited was appointed by the Board as the auditor of the Company. Save for the audit services, ZHONGHUI ANDA CPA Limited did not provide any non-audit services to the Group during the year ended 31 December 2022. The remuneration paid or payable to ZHONGHUI ANDA CPA Limited for services rendered for the year ended 31 December 2022 was as follows:

	RMB'000
Audit services	1,000
Non-audit services	35
	1,035

COMPANY SECRETARY

Mr. Tsui Kan Chun ("**Mr. Tsui**"), has been appointed the company secretary of the Company (the "**Company Secretary**") on 27 May 2015. The biographical details of Mr. Tsui are set out under the section headed "Biographical Details of Directors and Senior Management" in this report.

The primary duties of the Company Secretary include, but are not limited to (a) to ensure the Board procedures are followed and that the activities of the Board are carried out efficiently and effectively; (b) to assist the chairman to prepare agendas and Board papers for meetings and disseminate such documents to the Directors and Board committees in a timely manner; (c) to timely disseminate announcements and information relating to the Group; and (d) to maintain formal minutes of the Board meetings and other Board committee meetings.

Mr. Tsui has confirmed that he had received no less than 15 hours of relevant professional training for the year ended 31 December 2022, in compliance with Rule 5.15 of the GEM Listing Rules.

COMPLIANCE OFFICER

Mr. He Xuan Xi ("**Mr. He**") was appointed as the compliance officer of the Company. The biographical details of Mr. He are set out in the section headed "Biographical Details of Directors and Senior Management".

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than the AGM, shall be called an extraordinary general meeting.

To ensure compliance with the CG Code, the notice of the AGM, the annual report and the circular containing information on the proposed resolutions will be sent to Shareholders at least 20 clear business days before the AGM. Voting at the AGM will be taken by way of a poll. An explanation of the detailed procedures of conducting a poll will be provided to the Shareholders at the commencement of the AGM to ensure that the Shareholders are familiar with such procedures.

Poll results will be counted by the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, and will be posted on the websites of the Company and of the Stock Exchange on the day the Shareholders' meeting is held. The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. The chairman of the Board as well as the chairmen of the Remuneration Committee, Nomination Committee and Audit Committee, or in their absence, other members of the respective committees, are available to answer questions at the Shareholders' meetings. The Company will also arrange for the external auditor of the Company to attend the AGM to answer relevant questions if necessary.

Separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors.

SHAREHOLDERS COMMUNICATION POLICY

The Company has established a shareholders communication policy to set out the Company's procedures in providing the Shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, in order to enable the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and the investment community to engage actively with the Company. The channels for Shareholders to communicate their views on the Company's matters include the Company having setup a company e-mail (ir@greatwater.com.cn) for any enquires from exiting and potential Shareholders. The Company has reviewed its Shareholders communication policy during the year ended 31 December 2022 and given the above, the Company is of the view that its shareholders communication policy is effective.

Rights to convene an extraordinary general meeting

Pursuant to Article 58 of the Articles of Association, any one or more members holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Company's principal office as set out in the manner below, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

The written requisition must state the objects of the meeting, be signed by the requisitionist(s), be marked for the attention of the Board or the Company Secretary and be deposited at the principal place of business of the Company in Hong Kong.

If within 21 days from the date of the deposit of the requisition the Board fails to proceed to convene such meeting to be duly held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them may convene a meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed by the Company to the requisitionist(s).

The notice period to be given to the Shareholders for general meetings varies as follows:

(a) At least 14 days' notice in writing if the proposal constitutes an ordinary resolution of the Company;

(b) At least 21 days' notice in writing if calling for an AGM or the proposal constitutes a special resolution of the Company in an extraordinary general meeting.

Right to Put Enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong or by e-mail to ir@greatwater.com.cn for the attention of the Company Secretary.

Right to Put Forward Proposals at General Meetings

There are no provisions allowing Shareholders to propose new resolutions at the general meetings under the Cayman Islands Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised). However, Shareholders may follow the procedure set out in the section headed "Rights to convene an extraordinary general meeting" above for including a resolution at an extraordinary general meeting. The requirements and procedures are set out above.

Right to Propose a Person for Election as a Director

Detailed procedures for a Shareholder to propose a person for election as a Director are available on the Company's website.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and the Shareholders, its investors and other stakeholders. These include annual general meetings, the annual, interim and quarterly reports, notices, announcements and circulars and the Company's website at www.greatwater.com.cn.

CONSTITUTIONAL DOCUMENTS

From the date of the Listing to the year ended 31 December 2022, there had been no significant change in the Company's constitutional documents.

In order to comply with the latest requirements under the Listing Rules, the Board proposed to put forward relevant resolution(s) for Shareholders' approval at the forthcoming AGM for the adoption of the second amended and restated memorandum of association and the second amended and restated articles of association of the Company. Details of the proposed amendments to the Company's existing memorandum of association and articles of association will be disclosed in the circular to be despatched to the Shareholders together with the notice of the AGM.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

ABOUT THIS REPORT

The Group is pleased to present the Environmental, Social and Governance ("**ESG**") report for the year ended 31 December 2022 ("**Year 2022**"), with an aim to provide stakeholders with details of the Group's system establishment and performance in respect of sustainable development.

The core business of the Group is to help clients of the Group in China to reduce pollutant emissions for the protection of the environment. Starting from the wastewater and drinking water treatment engineering business, the Group is now gradually expanding to a wider and more comprehensive environmental protection business, including soil remediation, solid and hazardous wastes management, sludge treatment, air pollutants treatment, as well as integrated environmental services.

Since the establishment of the Group, the concept of sustainability has been deeply embedded in the Group's corporate value. Guided by its corporate value and with the aid of a thorough Integrated Management System ("**IMS**", the business of the Group in China is in conformity with the international environmental management system ISO14001:2015 and quality management system ISO9001:2015 standards starting from 2016), the Group not only focuses on pursuing continuous success in business development for the Group, but more importantly, cares for the creation of a better environment and the needs of the next generation.

The Group realises that not only does the report serve as a channel to communicate with stakeholders, but it is also an important tool to summarise the Group's sustainability performance and to aid in evaluating its sustainability practice. Furthermore, disclosing the environmental key performance indicators ("**KPIs**") via this report, we can evaluate and track the performance of the Company more accurately. Therefore, the Group will continue this ESG reporting as part of the strategy to improve the Group's sustainability performance continuously.

REPORTING FRAMEWORK

This report is prepared according to the ESG reporting guide under the Appendix 20 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited. The report complies with the ESG disclosure requirements of "comply or explain" in the ESG reporting guide. The report primarily highlights the environmental and social measures and activities of the Group during the Year 2022. Information regarding the Group's corporate governance is addressed in detail in the Corporate Governance Report.

The report follows the four reporting principles in the ESG reporting guide, including (i) Materiality: the Group has identified a number of issues which cover ESG, and invited stakeholders to assess the materiality of such issues in Year 2022; (ii) Quantitative: this report details the standards, methodologies used and source of conversion factors used for the KPIs related to emissions and energy consumption; (iii) Balance: both positive and negative impacts brought by the business are presented with high transparency; and (iv) Consistency: unless otherwise stated, the report uses the same methodologies and KPIs as disclosed in previous ESG reports of the Group to facilitate comparability at any time.

If you have any comments on the ESG report of the Group, please email to ir@greatwater.com.cn.

REPORTING SCOPE

This report mainly discloses the sustainability performance of three major subsidiaries of the Company, namely Guangzhou Lintao Environmental Protection Technology Co., Ltd.（廣州霖濤環保技術有限公司）(“**Lintao EP**”), Guangzhou Hongrun Environmental Protection Technology Co., Ltd.（廣州宏潤環保技術有限公司）(“**Hongrun EP**”), and Guangzhou Great Water Environmental Protection Co., Ltd.（廣州中科建禹環保有限公司）(“**Guangzhou Great Water**”). Lintao EP and Hongrun EP engage in design, construction and sale of equipment for wastewater projects. Guangzhou Great Water engages in design and construction and sale of equipment for environmental protection projects. Since the above subsidiaries have higher relevance to ESG aspects. Therefore, this report mainly discloses the policies and KPIs of the above subsidiaries in four environmental aspects and eight social aspects in Year 2022.

GOVERNANCE STRUCTURE

The Board’s oversight of ESG issues

The Directors of the Company are committed to the long-term sustainability of the environment and communities in which the Group operates, and continuously enhance the investment value of stakeholders throughout the operation through appropriate and effective internal control systems and ESG risk management measures. The Board considers ESG-related risks and opportunities as part of the Group’s overall strategic planning, and daily operations and business activities often have a significant impact on ESG. The Board has been monitoring ESG issues and identifying and assessing relevant issues, and confirms that, to the best of their knowledge, this report covers material issues related to the Group’s operations and fairly presents its ESG performance and impact.

The Board’s management approach and strategy for material ESG-related issues

The Board has appointed the management of the Group to oversee the Group’s ESG-related issues and works. The management of the Group is responsible for monitoring and reviewing the compliance with local laws and regulations on ESG-related issues. To better understand the opinions and expectations of different stakeholders on ESG matters, the Group conducts materiality assessment annually. The Group ensures that various platforms and communication channels are used to reach, listen and respond to its key stakeholders. Through comprehensive communication with stakeholders, the Group is able to understand the expectations and concerns of its stakeholders. The feedbacks obtained allow the Group to make more informed decisions and to better assess and manage the impact of these business decisions.

The Board’s review progress against ESG-related objectives and targets

The Board has appointed the management of the Group to set ESG-related goals, develop sustainable development strategies, policies and measures, and regularly review the implementation progress. If the progress does not meet the expected targets or the operating conditions change, we will strengthen the communication with stakeholders and adjust the sustainable development strategies.

STAKEHOLDER ENGAGEMENT

The Company places great emphasis on stakeholder engagement and it believes meeting the expectations of the stakeholders is crucial to the future of the Group's business. Hence, their feedback plays a crucial role in formulating the future sustainability strategy. Through multiple communication channels, including the annual general meetings, the corporate website, the dedicated customer services channels, and through the internal communication channels for employees, the Board will listen and respond to stakeholders' concerns related to the performance in the ESG areas.

Stakeholders include Shareholders, government and regulatory authorities, employees, customers, suppliers, society and the public. The Group discussed the expectations and demands of the stakeholders with them through various channels, and the relevant feedback of the Group is as follows:

Stakeholders	Expectations and demands	Communication and responses
Shareholders	• Financial results • Corporate transparency • Improving the risk control	• Improve profitability • Daily information disclosure • Optimising the risk management and internal control
Government and regulatory authorities	• Compliance with laws and regulations • Tax payment	• Compliance operation • Tax payment in full and on time
Employees	• Career development platform • Remuneration and welfare • Safe working environment	• Promotion Mechanism • Provide attractive remuneration packages • Safety committee is formed to oversee the implementation of safety measures
Customers	• Customer information security • Customer rights protection	• Protecting customer privacy • Compliance marketing
Suppliers	• Honest cooperation • Business ethics and reputation	• Building a responsible supply chain • Performance of contracts in accordance with laws
Society and the public	• Green enterprise • Employment opportunities	• Business helps customers to reduce environmental emissions • Providing jobs

EMISSION

With the corporate mission of "Contribute to the environmental protection in China for a cleaner sky and water", the Group strives to create positive impacts on the environment. As an environmental protection engineering service provider, the Group aims not only to minimise adverse environmental impacts from operations, but also to bring positive impacts by providing innovative environmental protection solutions to customers.

The operations of the Group are mainly in relation to environmental construction, which involve assisting customers to install environmental facilities at their premises. Therefore, in view of the Company's business nature, neither significant environmental emissions are generated, nor extensive use of natural resources is required. The Group has commenced a ten-year operating project as regards the development and construction of a sludge treatment project at a wastewater treatment plant in Dashadi, Guangzhou and another sludge treatment project as well as a three-and-a-half-year operating project at Guangzhou Baiyun Airport since mid-2020. The electricity consumption, water consumption and indirect greenhouse gas emissions of these two sludge treatment operating projects (the "**Environmental operations**") are relatively huge. The relevant impact has been identified with its details set out in the following sections.

AIR EMISSIONS AND GREENHOUSE GAS EMISSIONS

Due to the nature of its operation, which is mainly office-based, the Company only generates and emits a small amount of air pollutants, mainly generated by the use of vehicles. Such air pollutants include nitrogen oxides (NO_X), sulphur oxides (SO_X) and particulate matter (PM). In Year 2022, the KPIs of the Company's emissions are set out in the table below:

Air Pollutants[1]	Unit	Year 2022 Emissions	Year 2021 Emissions
NO_X	kg	8.55	11.40
SO_X	kg	0.21	0.26
PM	kg	0.63	0.84

1. The emission factors used in the calculation of air pollutants are sourced from the EPD Vehicle Emission Calculation model and the Vehicle Emission Modeling Software of the United States Environmental Protection Agency. These factors are calculated on the assumption that the relative humidity is 80% and the temperature is 25 degrees Celsius with an average speed of 30 kilometers per hour and include running exhaust emission only.

In response to the challenge of climate change, the Group believes that it is its responsibility to cut carbon footprints. Therefore, the Group has formulated the "Greenhouse Gas Emission Policy" and recorded the greenhouse gas emissions in the business process on a monthly basis to minimize the greenhouse gas emissions within the controlled scope.

The Group's main sources of greenhouse gas emissions come from the consumption of vehicle fuel, refrigerant, and electricity for the operations. The Group will continue to look for opportunities to lower greenhouse gas emissions within the operations with reference to the greenhouse gas emissions reporting standards.

In Year 2022, the KPIs of the Group's emissions are set out in the table below:

Greenhouse gas emissions	Unit	Year 2022 Emissions	Year 2021 Emissions
Direct emissions (Scope 1)			
Vehicle fuel	tCO_2 e	37.77	47.28
Refrigerant	tCO_2 e	1,820.00	2,405.00
Indirect emissions (Scope 2)[3]			
Electricity used for non-environmental operations	tCO_2 e	88.78	108.44
Electricity used for environmental protection operations	tCO_2 e	6,311.21	6,679.95
Total greenhouse gas emissions	tCO_2 e	8,257.76	9,240.67
Total number of employees	Number	69	88
Intensity of greenhouse gas emissions	tCO_2 e/ per employee	119.68	105.01

Scope 1: The greenhouse gas emissions generated directly from operations that are owned or controlled by the Group, including greenhouse gas emissions from vehicles and refrigerants used by the Company.

Scope 2: The greenhouse gas emissions generated indirectly from the purchased electricity and gas consumed by the Group.

3. The greenhouse gas emissions generated indirectly from the purchased electricity consumed by the Group is calculated based on the national emission factor 0.6101 kg CO_2/kWh of Ministry of Ecology and Environment of the People's Republic of China (2019).

The Group's 5-year target is to reduce the air emissions and the greenhouse gas emissions intensity by 5% respectively based on the 2021 baseline by the year of 2026.

Environmental KPIs	Emission reduction targets	Base year	Status
Intensity of NO_x emissions	Reduce by 5% by the year of 2026	Year 2021	In progress
Intensity of SO_x emissions	Reduce by 5% by the year of 2026	Year 2021	In progress
Intensity of PM emissions	Reduce by 5% by the year of 2026	Year 2021	In progress
Intensity of greenhouse gas emissions	Reduce by 5% by the year of 2026	Year 2021	In progress

WASTE MANAGEMENT

The Group has issued a clear guidance regarding the management of both hazardous and non-hazardous wastes. In our office, limited amount of non-hazardous wastes such as paper and domestic waste were collected at designated locations by qualified waste collectors. As the amount of non-hazardous wastes produced are insignificant, the Group will further collaborate with the waste collectors in the future for collection of relevant data on the amount of wastes produced and its intensity. The Group has given employees sufficient guidance on how to and where to dispose of wastes. In addition, the Group has appointed recycling companies to treat recyclables such as printer ink toner so as to lessen the burden on the landfill.

Waste	Unit	Year 2022 Emissions	Year 2021 Emissions
Total hazardous waste generated	kg	N/A	N/A
Intensity of hazardous waste generated	kg/employee	N/A	N/A
Total non-hazardous waste generated	kg	N/A	N/A
Intensity of non-hazardous waste generated	kg/employee	N/A	N/A

In Year 2022, the Group did not generate any hazardous waste. Potentially, hazardous wastes may be produced from the research and development laboratory during experiments. In case hazardous wastes are produced, the Group will label, store, treat, and transport them with strict compliance with related laws and regulations in China. In addition, since the non-hazardous wastes generated by the Group is minimal, therefore, no relevant figure is quantified.

The Group aims to maintain zero generation of hazardous waste and minimum generation of non-hazardous waste in the next five years.

Under the Integrated Management System ("**IMS**") which is in conformance to ISO14001: 2015 certified Environmental Management System, the Company is committed to utilising resources efficiently, reducing waste generation and minimising negative impacts on the environment within its operations through formulating its goals and corresponding actions.

#	Goal	Practical actions and policies
1.	100% compliance rate of wastewater discharge	— Strengthening the monitoring of water quality — Appoint qualified third-party unit to conduct monthly investigation — Ensure meeting regulatory standards before discharge
2.	100% compliance rate of sludge discharge	— Ensure effective rainproof and leak-proof work
3.	100% correct handling rate of hazardous waste	— Establish chemical material safety data sheet database — Offer training on proper handling of chemicals — Provision of protective equipment
4.	Zero fire accident	— Configure with sufficient fire-safety equipment — Conduct training and fire drills — Inspect the power system and circuit periodically — Supervise maintenance work closely

The IMS also sets out the management framework, with relevant rules and procedures for proper control on the activities. The Company further ensures the compliance with all applicable laws and regulations by closely following relevant updates in China.

The Group considers environmental protection and preserving natural resources as an important component of its sustainable and responsible business. The Group has also established an Environmental Action Group, which is responsible for identifying and constantly evaluating environmental issues arising from operations including work carried out in the research and development building, and during the provision of operation and maintenance ("**O&M**") for the clients at project sites. The evaluation results act as a base to establish the improvement strategy in pursuing sustainable development.

In Year 2022, the Group was not aware of any material non-compliance with the relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous wastes, including the Environmental Protection Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste. In addition, there was no report of significant fines or sanctions as a result of non-compliance with the relevant laws and regulations in Year 2022.

USE OF RESOURCES

Using resources wisely and responsibly not only helps to lower operating costs, but also to reduce the carbon footprints. As the Company believes that it is the joint responsibility of all of us to reduce the use of resources, the Company aims to raise the environmental protection awareness among employees by promoting green office practices such as using recycled paper and posting reminders near switches.

Use of energy

The Group is committed to reducing the energy usage and thus the corresponding greenhouse gas emissions by promoting the idea of operations in "green" offices and venues to the employees. For instance, signs are placed near the switches to remind employees to switch off electrical appliances when they are not in use.

Resources	Unit	Year 2022 Consumption	Year 2021 Consumption
Vehicle fuel (diesel) consumed	kWh	N/A	N/A
Vehicle fuel (petrol) consumed	kWh	137,620.79	172,254.24
Electricity consumed (Non-environmental operation)	kWh	145,509.00	177,738.00
Electricity consumed (Environmental operation)	kWh	10,344,542.00	10,948,938.00
Total energy consumption[4]	kWh	10,627,671.79	11,298,930.24
Total energy consumption intensity	kWh/employee	154,024.23	128,396.93

4. Conversion factor used for converting data collected (diesel and petrol) to kWh unit is sourced from the Energy Statistics Manual from the International Energy Agency.

Water resources

Knowing how precious the Group's water resources are, it is responsibility of the Group to manage the use of water in an efficient way. In the Group's premises, signs to encourage water-saving are placed in washrooms to remind the employees to conserve water.

Water resource	Unit	Year 2022 Consumption	Year 2021 Consumption
Water consumption (Non-environmental operations)	m^3	2,993.00	3,182.20
Water Consumption (Environmental operations)	m^3	93,853.00	132,392.00
Total water consumption	m^3	96,846.00	135,574.20
Water consumption intensity	m^3/employee	1,403.57	1,540.62

During the Year 2022, the Group has not experienced any difficulty in sourcing water that is fit for the usage of the Group.

The Group's 5-year target is to reduce the total energy consumption intensity and water consumption by 5% based on the 2022 baseline by the year of 2026.

Environmental KPIs	Emission reduction targets	Base year	Status
Total energy consumption intensity	Reduce by 5% by the year of 2026	Year 2021	In progress
Water consumption intensity	Reduce by 5% by the year of 2026	Year 2021	In progress

Packaging materials

The Group operations involve the use of a limited amount of packaging materials. Major types of packaging materials consumed by the Group are paper, plastic, and wood.

Packaging Materials	Unit	Year 2022 Consumption	Year 2021 Consumption
Paper	tonnes	0.19	0.28
Plastic	tonnes	0.01	0.01
Wood	tonnes	0.17	0.47
Total packaging materials used	tonnes	0.37	0.76
Intensity of packaging materials used	tonnes/employee	0.005	0.01

THE ENVIRONMENT AND NATURAL RESOURCES

With the extensive experience in the environmental engineering services and investment in R&D, over the years the Group has devoted its resources to providing over 100 customers in China with an extended range of engineering solutions. These range from wastewater and drinking water treatment to other businesses including soil remediation and waste disposal, with an aim of helping our clients to solve the environmental issues in their operations.

Constructions of all these treatment facilities may cause negative impacts on the environment if not managed properly. By closely following the rules and procedures contained in the IMS, the Group ensures that all construction work is strictly in compliance with the applicable environmental laws and regulations in the China, by adopting the following measures:

— Environmental impact assessment is carried out and relevant approval is obtained prior to the construction of the facilities where required;

— During the construction of the project, environmental monitoring and auditing are conducted to ensure implementation of proper pollution control measures; and

— Final inspection is carried out before the operation of the facilities.

The Group also provides O&M services to the owners of environmental facilities, where the Company strives to ensure the smooth operation and effectiveness of the facilities in dealing with the environmental issues. For example, the prime objective of O&M services for wastewater treatment facilities is to ensure that the effluent quality meets the government's water quality standard. In doing so, the Company has engaged third-party agents to monitor the effluent quality regularly. Likewise, the Company has implemented special measures such as effective leak-proofing and rain-proofing are put in place to prevent leakage and rainwater from infiltrating into the sludge for handling of sewage sludge from wastewater treatment, to avoid any environmental pollution.

In addition, the Group places high importance on research and development on environmental protection treatment technologies in order to improve the existing technologies, and has continually developed other technologies with higher efficiency and effectiveness.

As of 31 December 2022, the Group possesses several patents and will continue to file more patent applications, so as to maintain the Group's competitiveness in the environmental protection treatment market in China.

CLIMATE CHANGE

The continuous emission of greenhouse gas leads to climate change. In response to climate change, the Group made reference the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) framework to assess climate-related risks. There are two main types of risks, which are: (i) physical risks associated with climate change impacts; and (ii) transition risks associated with low-carbon economy.

The climate-related risks identified by the Group are mainly structural damage to premises of the Group and where the Group's construction and operating projects are held due to the increase in frequency of extreme weather events and flooding due to changes in rainfall patterns. Such climate change may affect labour management and planning, and also increase the risk of work-related injuries for the employees. In addition, there is a risk that the Group's infrastructure and machines may be damaged due to climate change, and facilities damage will affect operations and lead to an increase in operation costs.

In response to the above climate-related risks, the Group has purchased employee injury insurances for all employees. Such insurances covers the expenditure coverage for employees' injuries due to weather conditions. In addition, the Group has also purchased relevant property insurance for all construction projects, operating projects and the Group's key fixed assets to cover property losses due to weather conditions and reduce maintenance costs that may be required.

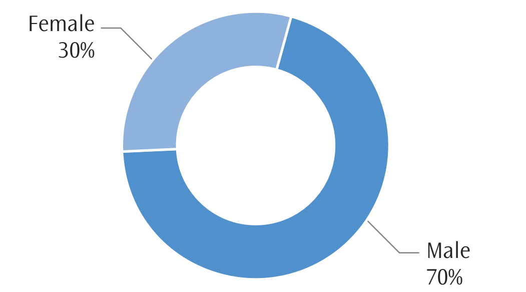
EMPLOYMENT

Employees are the most valuable assets as the Group fully relies on them to carry out its business activities. With the business principle of "improve ourselves, improve the environment, and improve the world", the Company understands that it is fundamental to continuously better itself first before it can improve others. Therefore, the Group pays the upmost care about its employees and strives to provide a pleasant workplace where people are valued and treasured.

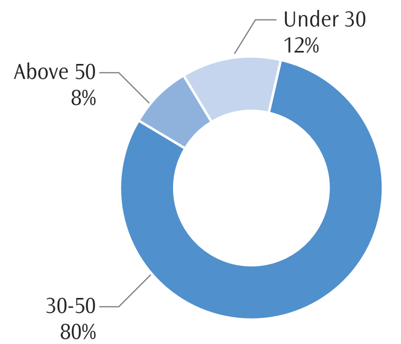
The Group gives competitive remuneration packages to the Company's employees in line with the market, and ensure that the Company is in full compliance with all applicable laws and regulations related to employment including compensation and dismissal, working hours and wages in China. The Company has developed a comprehensive "Human Resource Management Policy" and an "Employee Handbook", both of which detail all the necessary rules and procedures related to human resources management.

As of 31 December 2022, the Group had 69 employees, all of them were full-time employees.

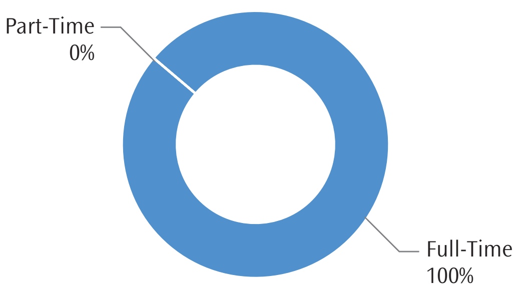
Total number of employees by gender



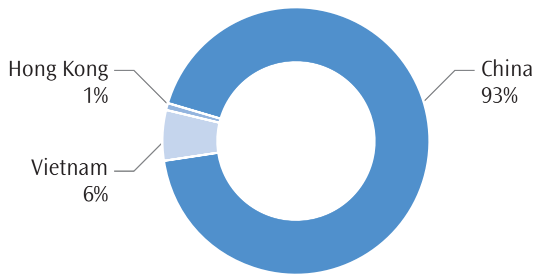
Total number of employees by age group



Total number of employees by employment type



Total number of employees by geographical region



In Year 2022, the employee turnover rate of the Group by categories is as follows:

Employee turnover rate	Year 2022	Year 2021
By gender		
— Male	28.1%	17.2%
— Female	18.2%	13.6%
By age group		
— Under 30	27.9%	27.9%
— 30 to 50	25.0%	12.5%
— Above 50	23.5%	11.8%
By geographical region		
— Hong Kong	–	–
— China	25.2%	16.4%
— Vietnam	36.4%	18.2%

5. Employee turnover rate by categories is calculated by dividing the total number of employees lost in such category by the average number of employees in the corresponding category.

The Group provides a number of benefits and welfares to the employees based on different needs and characteristics of their job duties. For example, the Group gives subsidies to employees who unavoidably have to work in challenging working conditions with unpleasant odour or high temperature outdoor working environments; allowances and subsidies are given to employees to compensate for any work-related and living expenses such as transportation, meals, and telecommunications.

During the recruitment of employees, the Group upholds the principles including equal opportunity, anti-discrimination and diversity to ensure a fair recruitment process is applied to all candidates, so that only the most suitable candidate is selected and promoted. Likewise, through its comprehensive "Performance Appraisal System" led by the Appraisal Committee, the Group reviews the performances of employees regularly. The Group reward and promote the employees fairly based on their contributions and work performance. In addition, the Group offers various kinds of bonuses to employees as rewards for their outstanding performance, contribution to the Group, and safety performance.

When employees resign, the reasons for resignation and time of departure are required to be provided. After responsible department head and the human resources department have approved the dismissal, the employment contract can be terminated.

The Group has regulated working hours and forbade forced labour or forced overtime work as set out in the employment agreements. Moreover, the Group has established the rest periods system according to national laws and regulations. Employees are entitled to national statutory holidays, paid annual leave, marriage leave, maternity leave and nursery leave, compassionate leave, etc. during their term of employment with the Group.

The Group has stipulated the strict ethical rules, policies, and guidance especially on fair competition, anti-corruption, and conflict-of-interest in the Employee Handbook and have effectively implemented rules, policies and guidances. A whistle-blower system has been put in place which allows employees to directly report on any corruption acts, misconduct, or malpractice related to the Company to relevant personnel for investigation if necessary. The head of human resources directly handles the report of the investigation, and initiates further action by the Board where appropriate. Furthermore, the Audit Committee of the Company holds regular meetings to safeguard the integrity of the Company.

Employees, who are involved in the Group's business operations, are restricted from conducting any insider trading of the Company's stock, or from disclosing any insider information which allows the public to benefit from investing into the Company's stock, or affect the trading price of the stock.

In Year 2022, the Group is not aware of any material non-compliance with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China and other applicable laws and regulations, that have a significant impact relating to remuneration and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare on the Group. In addition, no non-compliance with laws that resulted in significant fines or sanctions had been reported in Year 2022.

HEALTH AND SAFETY

The Group does its utmost to safeguard the workplace safety of its employees. "Safety comes first, emphasis on precaution" is the Company's motto. In order to achieve this, the Group has established a safety management system to govern the identification, implementation and operation of all necessary safety measures. The safety management system stresses the importance of safety prevention and education in order to prevent potential safety hazards.

A Safety Committee, which comprised of senior management and employees who had received professional safety training, oversees the implementation of safety measures in the Company. The Safety Committee holds meetings regularly to evaluate the performance of the Company in safety, and continuously review its safety management policies.

Out of all identified safety risks in a working environment, the Group pays particular attention to fire hazard and is determined to raise employees' awareness towards fire safety in the workplace. The Group has fire safety training for all employees, and conducts fire drills from time to time to practise and perfect its emergency response to fire hazards.

There are also potential safety hazards in research and development laboratory of the Group during handling of chemicals and when conducting experiments. The Group has established a "Laboratory Management Plan" which provides rules and procedures to govern the safety of laboratories. This Plan covers areas such as chemical and hazardous waste handling, fire and explosion emergency response, and employees injuries. For example, the Group has strict procedures for handling toxic chemicals, and has prepared the material safety data sheet for all the chemicals involved in the research and development laboratory, to ensure that the employees who handle the chemicals are well aware of the potential hazards (health, fire, reactivity and environment), and understand how to work safely with the chemical products. To ensure employees' work safety, the Group provides safety training and proper personal protective equipment. Hazardous wastes are required to be treat with special cares and in lines with the necessary instructions such that they can only be discharged or disposed of safely, so as to bring the least harm to people and the environment.

In Year 2022, the number of lost days due to work injury is as follows:

	Year 2022	Year 2021	Year 2020
Number of work-related fatalities	–	–	–
Work-related fatalities rate (%)	–	–	–
Lost days due to work injury	–	–	–

In Year 2022, there were no work-related injuries, thus there were no lost days due to work-related injuries and no work-related fatalities.

In response to the outbreak of the COVID-19 pandemic, the Group has taken certain actions to strengthen the health and safety precautionary measures in the office premises and has formulated the "Notice on epidemic prevention and control". The measures of the Group in response to COVID-19 include but not limited to: (i) employees are required to report their health status and travel information to the Company in a timely manner; (ii) employees are required to wear masks in compliance with the government's regulations on epidemic prevention and control when going out; and (iii) personal protection is strengthened in the office premises to avoid close contacts.

In Year 2022, the Group was not aware of any material non-compliance with the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, the Regulation on Work-Related Injury Insurance of the People's Republic of China, the Fire Protection Law of the People's Republic of China and other applicable laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards. In addition, no non-compliance with laws that resulted in significant fines or sanctions had been reported in Year 2022.

During the construction of environmental protection facilities for the Group's clients, safety always comes first. Therefore the subcontractors are required to sign a safety agreement, which commits the subcontractors to complying with the Company's safety requirements, including safety risk identification and evaluation, safety training and inspection, etc.

DEVELOPMENT AND TRAINING

The Group has developed an "Employee Training Management System" to manage all training related activities for different levels of employees within the Group, with the following objectives:

- To establish a corporate culture of continuous learning and development;
- Properly manage all training with the Group and align them with the developments of the Group;
- Continuously develop employees' knowledge base;
- Strengthen employees professional skills;
- Raise overall quality of the business; and
- Increase the Group's competitiveness and internal bonding.

Based on the results of training needs, surveys and assessments, the Group designs corresponding monthly and annual training plans for each employee. Various types of training, including new hire training, soft skills training, technical training, and job-specific training, are provided by the Group in order to cater for the needs of employees and the Group's internal strategic plan. The Group also places emphasis on self-learning, and encourages employees to continuously study. Rewards are given by the Group to employees who acquire relevant qualifications from further education.

For career development at the Group, the Group has provided equal opportunity in promotion based on appraisal on their work performance. Apart from performance, as a means of promoting learning and education, employees also need to attain a certain number of training hours per year in order to be promoted.

	Year 2022	Year 2021
Average total hours of training per employee (hours)	6.4	8.6
Average training hours completed by employee by gender		
— Male (hour)	8	10
— Female (hours)	6	8
Average training hours completed by employee by employee categories		
— Senior Level (hours)	8	9
— Middle Level (hours)	4	6
— Entry Level (hours)	2	3
Percentage of trained employees[6]	87%	93%
Percentage of employees trained by gender[7]		
— Male	70%	72.5%
— Female	30%	27.5%
Percentage of employees trained by employee categories		
— Senior Level	1.7%	1.2%
— Middle Level	13.3%	12.5%
— Entry Level	85.0%	86.3%

6. Percentage of trained employees is calculated by dividing the number of trained employees by the total number of employees.

7. Percentage of employees trained by employee categories is calculated by dividing the number of trained employees of that category by the number of trained employees.

LABOR STANDARDS

The Group believes that the employment of child labour and forced labour is a serious violation of universal values, and is therefore strongly against all employment of child labour and forced labour. The Group strictly complies with all the laws and regulations against child labour and forced labour. The Group has taken measures to avoid child and forced labour to ensure that no person who is underage or under coercion is employed. The administration and human resources department verifies the identity card of the candidates to avoid child labour. In addition, all employees have signed employment contracts with no forced labour practices. If child labour and forced labour are found during the recruitment process, the relevant authorities will be notified.

In Year 2022, the Group was not aware of any material non-compliance with the Labour Law of the People's Republic of China, Prohibition of Child Labour Provisions and other applicable laws and regulations by the Group in preventing child or forced labour. In 2022, there were no non-compliance with the relevant laws and regulations that resulted in significant fines or sanctions.

SUPPLY CHAIN MANAGEMENT

The Group values highly the quality and performance of our suppliers and subcontractors. Following the "Procurement Control Procedure", the Group performs supplier assessment for all potential suppliers, and conducts annual assessment for existing suppliers to ensure their supplies and services fulfil our expectations. Apart from the consideration of quality and costs, the Group also takes into consideration heavily the environmental and safety aspects of raw materials procured from or used by the suppliers. For example, the Group always opts for raw materials that are more environmentally friendly, monitors the safety conditions of raw material storage, and reviews the working environment and labour conditions during the assessment.

The Group implements a "Subcontractor Management System" for the selection and management of the sub-contractors. Through the system, only qualified parties with good reputation, strong technical expertise, competence, and with good management records are selected and assigned for the work. Our engineering department is responsible for managing the subcontractors for the execution of the projects and ensures the quality of the work can meet the required standards.

The Group strives to compete with its competitors fairly and honestly in the market and strictly complies with the relevant fair competition laws and regulations. Violations of the Group's policies or laws will result in penalties and legal liabilities. In particular, the Group strictly prohibits any price monopoly, market allocation and fraudulent or improper advertising and promotion activities. The Group also ensures fair competition between suppliers and subcontractors, and prohibits any unfair termination of contractual relationships with them.

The Group is engaged in environmental protection engineering and operation of environmental protection projects. When undertaking engineering and operation projects, the Group must construct facilities or operate in accordance with the local government's emission standards for such engineering and operation. Upon completion of the construction, the project is also subject to inspection and acceptance by the customer's local environmental protection department, while the operating project is required to provide emission data to the local environmental protection department on a regular basis.

Number of suppliers by geographical region:

Region	Year 2022	Year 2021
Mainland China	167	140
Vietnam	5	1

PRODUCT RESPONSIBILITY

The Group strives to pursue excellence in our products and services, with the aim of achieving maximum customer satisfaction. Apart from providing the best support to customers on their environmental issues in their business operations, the Group has also developed a systematic approach on quality management following the international standard ISO9001, and has set up procedures from project design to after-sales services. For example, a warranty is provided by the Group to ensure that the installed wastewater treatment facilities are operated appropriately and effluent quality meets the government standards.

Customer Feedback and Handling

A customer satisfaction survey is conducted annually to continuously check if the Group's products and services can meet customers' expectations. The valuable opinions obtained are used to review and improve our services. If any complaints were received from customers or any quality issues were identified from regular audits on the product and service quality, the Group would promptly investigate and rectify the problems. In Year 2022, the Group did not recall any products sold or shipped because of safety and health reasons. By all these means, the Group is determined to pursue continuous improvement in the services. The Group has also formulated the "Customer Complaint Handling Procedures" to improve the customer complaint procedures and require relevant departments to keep and manage the complaint records. In Year 2022, the Group did not receive any product recall or complaint on its service or product quality from the customers.

Protection of privacy and intellectual property

Protection of privacy information is also essential to gain trust from clients. The Group has put policies in place and has an "Intellectual Property Management Regulation" and the "Information Security Management Procedure" to regulate how to collect and handle customers' information, and is devoted to protecting intellectual property rights. Policies to protect intellectual property rights in areas such as proprietary technologies, trademarks, inventions, copyrights, and business secrets are developed for the benefits of the Group and its customers.

In Year 2022, the Group was not aware of any material non-compliance with the Regulations on the Work Safety Management of Construction Projects, Ordinance of Quality Control on Construction Works and other applicable laws and regulations. In Year 2022, there was no significant fines or sanctions as a result of non-compliance with any relevant laws and regulations relating to health and safety, advertising, labelling and privacy matters in connection to the products and services provided by the Group.

ANTI-CORRUPTION

The Group forbids any form of bribery to or from suppliers and customers as stated in the related laws and regulations. Suppliers are required to sign agreements to acknowledge and agree to comply with the Company's "Anti-bribery Policy". The policy also forbids employees to receive any benefits from the Company's business partners for any advantages or favours in business. In Year 2022, the Group invited external training institutions to provide training under the theme of anti-corruption to its Directors and employees to help them understand the importance of anti-corruption and the terms of laws and regulations.

The Group has also set up and implemented the "Anti-Corruption Policy" and "Whistleblowing Policy" to regulate improper trading practices. The Group encourages employees to report suspected misconduct and is committed to protecting the identity of whistleblowers and ensure strict confidentiality of information provided by them.

In Year 2022, the Group was not aware of any material non-compliance with the Anti-unfair Competition Law of the People's Republic of China, the Anti-Money Laundering Law of the People's Republic of China and other applicable laws and regulations. In Year 2022, there was no legal case regarding corruption brought against the Group or its employees.

COMMUNITY

The Group insists that, as a listed public company, it must shoulder social responsibilities and make contributions to the society, especially in the aspects of society, environment, education and community. Since 2016, the Group has formulated a "Community Investment Policy" and has planned to set up a team for organizing and participating in community activities aiming at making contributions to the community.

Since the beginning of 2020, the world has been affected by the Coronavirus pandemic. In order to ensure the health and safety of our employees, the Group suspended our organization and participation in community activities during the year, and will consider to resume the relevant activities once the Coronavirus pandemic is under control.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. XIE Yang (**謝楊先生**), aged 59, is an executive Director, the chairman and the chief executive officer of the Company and he has joined the Group since August 2001. Mr. Xie is one of the Controlling Shareholders. Mr. Xie is also a director of each of Guangzhou Hongrun Environmental Protection Technology Co., Ltd. (廣州宏潤環保技術有限公司) ("**Hongrun EP**"), Guangzhou Lintao Environmental Protection Technology Co., Ltd. (廣州霖濤環保技術有限公司) ("**Lintao EP**"), Guangzhou Great Water Environmental Protection Co., Ltd. (廣州中科建禹環保有限公司) ("**Guangzhou Great Water**") and Great Water EP Investment (China) Limited ("**Great Water Hong Kong**"), all being wholly-owned subsidiaries of the Company. He has over 13 years of experience in wastewater and water treatment engineering service industry in the PRC. Mr. Xie is primarily responsible for the overall management, strategic planning and business development of the Group. He is also the legal representative and general manager of Guangzhou Great Water. Mr. Xie is one of the founding shareholders of Guangzhou Great Water in August 2001. Prior to the establishment of Guangzhou Great Water, Mr. Xie was a shareholder and a director of Guangzhou Sunshine Gas Development Co. Ltd. (廣州陽光燃氣發展有限公司), a company principally engaged in the design, implementation and management of natural gas facilities and pipes from 1996 to 2001, where he was responsible for its overall management, strategic planning and business development.

Mr. Xie graduated from the Hunan Normal University (湖南師範大學), the PRC in July 1981. He further completed his education in political sciences at Central School of China Communist Youth League (中國共產主義青年團中央團校) (currently known as China Youth University of Political Studies (中國青年政治學院)) in January 1988. In November 2003, Mr. Xie was appointed as a visiting professor at Hunan Technology College (湖南科技學院). He is also a senior engineer in the field of environmental engineering recognised by Chinese Academy of Sciences (中國科學院) in November 2004.

As at 31 December 2021, Mr. Xie was interested in 91,350,000 Shares. For details, please refer to the section headed "Report of the Directors — Disclosure of Interests" in this report.

Mr. GAO Xue Feng (**高雪峰先生**), aged 40, was appointed and joined the Group as an executive Director of the Company on 28 January 2022. Mr. Gao graduated from Northeast Normal University, majoring in international economics and management. He is pursuing a master's degree in business administration from the Sofia University in the United States and a doctoral degree in medical and health management from the Universidad Catolica San Antonio De Murcia in Spain. Mr. GAO has more than five years of experience in the big health industry in the PRC, and also has more than 10 years of experience in the information technology and jewelry industry in the PRC.

Mr. ZHAO Yan Wei (**趙延偉先生**), aged 34, was appointed and joined the Group as an executive Director of the Company on 10 March 2022. Mr. Zhao graduated from Northwood University in the United States, with a major in business administration. Mr. Zhao has more than eight years of experience in the big health industry and also in the field of corporate finance leasing in the PRC. Mr. Zhao is the founder, chairman and general manager of Jilin Haisiairui Medical Technology Company Limited* (吉林海思艾瑞醫學技術有限公司) as well as the major research and development personnel for the brand equipment of Health Service Area ("**HSA**").

Mr. HE Xuan Xi (**何炫曦先生**), aged 41, is an executive Director and the compliance officer of the Company. Mr. He is primarily responsible for general management and overseeing major affairs of the Group, including project management and strategic development of the Group. Mr. He has over 9 years of experience in accounting and financial management. Mr. He joined the Group as an accountant in January 2007 and was later promoted to finance supervisor in November 2007, finance deputy manager in March 2008, finance manager in January 2009 and assistant to general manager in March 2014. Mr. He graduated from Guangdong Finance and Economics College (廣東財經職業學院大學專科) in July 2005 with a diploma in accountancy. He further obtained a bachelors degree in accountancy from South China University of Technology School of Continuing Education (華南理工大學繼續教育學院) in Guangzhou, the PRC, in January 2011.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Ms. GONG Lan Lan (龔嵐嵐女士), aged 47, is a non-executive Director. She has served as a director of Guangzhou Great Water since June 2012. Ms. Gong has assumed a non-executive role on the board of Guangzhou Great Water and does not participate in the day-to-day management and operation of the Group. Ms. Gong also gives advice on strategic directions of the Group as a member of the Board. Ms. Gong is also a director of Hongrun EP and Lintao EP. Since September 2007, Ms. Gong has worked as a deputy general manager responsible for general management and day-to-day operation in Shanghai Tengyi Information Technology Co., Ltd. (上海騰一信息技術有限公司) (a company principally engaged in information technology development business). Ms. Gong graduated from Shanghai University of Finance and Economics (上海財經大學) with a bachelor's degree in corporate management in June 1998. She further obtained a master's degree in accountancy at Shanghai University of Finance and Economics in December 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. BAI Shuang (白爽女士), aged 51, has been appointed as an independent non-executive Director since December 2015. Ms. Bai is a seasoned practising lawyer in the PRC and has more than twenty years practising legal experience in the PRC. She is currently a partner of Beijing Dacheng (Guangzhou) Law Offices (北京大成(廣州)律師事務所) since November 2010. From October 2006 to October 2010, Ms. Bai was a partner of Guangdong Debi Law Offices (廣東德比律師事務所). From October 2001 to October 2006, she worked as a lawyer at Guangdong Kings Law Firm (廣東金領律師事務所). Ms. Bai graduated from Southwest University of Political Science and Law (西南政法大學) with a bachelor's degree in laws in July 1992.

Mr. HA Cheng Yong (哈成勇先生), aged 64, has been appointed as an independent non-executive Director since December 2015. Mr. Ha has 33 years of experience in research, application of and management regarding chemistry and natural sciences. Since 2018, Mr. Ha has been a council member of the Guangdong Association of Senior Scientists and Technicians, a social organization founded by the Government and designated to promote scientific and technological achievements and to popularize knowledge on science and technology by leveraging the knowledge and experience of former or retired scientists and technologists. During the period from December 2000 to June 2009, Mr. Ha was the deputy head of Guangzhou Chemistry Research Institutes of Chinese Academy of Sciences (中國科學院廣州化學研究所) who was responsible for overseeing chemistry research activities. From December 2001 to May 2009, Mr. Ha served as a managing director of Chinese Academy of Sciences Guangzhou Chemistry Co., Ltd. (中科院廣州化學有限公司), a company principally engaged in the research and development on chemical engineering and other engineering services where he was responsible for the overall management, the strategic development and formulation of research area and direction of the Company. During the period from January 2012 to October 2015, Mr. Ha has served as an assistant to the Dean of Institute of Industry Technology, Guangzhou & Chinese Academy of Sciences, a national academy for natural sciences of the PRC and Mr. Ha was responsible for property investment and supervising the research on the application of polymer materials. During the period between August 2015 and September 2018, Mr. Ha has been the Deputy Chief Officer (副主任) of Yinchuan Technology Innovation & Incubation Center of China Academy of Sciences (a business unit jointly organized by China Academy of Sciences and Yinchuan City Government and designated to improve the transference and transformation of the technological achievements of China Academy of Sciences in Yichuan), mainly responsible for monitoring the whole process of technological achievement transference and providing consultation and training for new technology applications. Since November 1997, Mr. Ha worked as a researcher and was later promoted to tutor for master students at Guangzhou Chemistry Research Institute of Chinese Academy of Sciences. Mr. Ha retired since December 2018.

Mr. Ha graduated from Wuxi Light Industry College (無錫輕工業學院) (now known as Jiangnan University (江南大學)) with a bachelor's degree in industrial chemistry in December 1982. He then obtained a master's degree in forest chemical processing engineering at Institute of Chemical Industry of Forest Products (中國林業科學研究院) in September 1985 and later completed his PhD at the same institute in October 1991. During the period between November 2008 and December 2014, Mr. Ha was an independent director of Xilong Chemical Co., Ltd. (西隴化工股份有限公司) (a company principally engaged in the production, sale, research and development of chemical reagent, which is established in the PRC and listed on the Shenzhen Stock Exchange (stock code: 002584)).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. TSE Chi Wai (謝志偉先生), aged 55, has been appointed as an independent non-executive Director since December 2015. Mr. Tse has over thirty years of experience in areas of auditing, accounting and finance gained from working with various international accounting firms and listed companies. Mr. Tse graduated from the University of Hong Kong in June 1989 with a bachelor's degree in social sciences. Mr. Tse is currently a practising member of the Hong Kong Institute of Certified Public Accountants. He is an executive director of Shanghai Conglin Environmental Technology Co., Ltd (上海叢麟環保科技股份有限公司), a company listed on the Shanghai Stock Exchange Star Market (上海證券交易所科創板) since August 2022, stock code 688370. He is an independent non-executive director of Hong Kong listed company, China Environmental Technology Holdings Limited (Stock Code: 646). Mr. Tse was an independent non-executive director of Huarong Investment Stock Corporation Limited (Stock Code: 2277) from April 2016 to December 2020. He was an independent non-executive director of Chong Kin Group Holdings Limited (Stock Code: 1609) from January 2018 to August 2018, Winto Group (Holdings) Limited (Stock Code: 8238) from January 2018 to May 2019, Greens Holdings Limited (Stock Code: 1318) from March 2015 to November 2015 and Sunac China Holdings Limited (Stock Code: 1918) from December 2012 to December 2017. Mr. Tse stepped down as an executive director of China Information Technology Development Limited, a company listed on GEM of the Stock Exchange (stock code: 8178) with effect from July 2019.

Save as disclosed above, each of the Directors does not have any relationship (including financial, business, family or other material relationship) with other Directors, senior management or substantial or Controlling Shareholders of the Company.

SENIOR MANAGEMENT

Mr. FENG Huan (馮奐先生), aged 40, is the Group's vice general manager. Mr. Feng joined the Group as the head of our marketing department in January 2016 and was promoted to the Group's vice president in 2017. Mr. Feng is responsible for assisting the Group's general manger in overseeing every aspect of the Group's daily operation. Mr. Feng worked as a sales manager in South China and the top customer manager in China at Alfa Laval Group and Sidel, respectively. He has over 15 years of experience in industrial customer base and the field of engineering. Mr. Feng graduated from Central South University (中南大學) in Hunan in 2006 with a bachelor's degree in chemical engineering and technology.

Mr. WANG Lei (王磊先生), aged 40, is the Group's vice general manager, responsible for technical works such as engineering, procurement, design, research and development. Mr. Wang joined the Group in June 2016. He has over 10 years of experience in the consultation, design, research and development, project evaluation, construction management and operational commissioning in the field of environmental protection and drainage. Prior to joining the Group, from June 2007 to June 2016, Mr. Wang worked as the heads of the specialist, design and advisory and evaluation centre departments, as well as the deputy general engineer at the design institute and the head of environmental institute at Guangzhou Huahao Energy Environmental Protection Group Limited (廣州華浩能源環保集團有限公司).

Mr. Wang graduated from Xi'an University of Architecture and Technology (西安建築科技大學) in September 2005 with a bachelor's degree in environmental science. He then obtained a master's degree in municipal engineering at Harbin Institute of Technology (哈爾濱工業大學) in December 2007. Mr. Wang qualified as a registered environmental protection engineer in 2010, a registered utility engineer (water supply and drainage) in 2012 and a registered consulting engineer and senior engineer in 2014 respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. CHEN Shao Juan (**陳少娟女士**), aged 44, is the head of human resources and administration department of the Company. Ms. Chen joined the Group as the human resources and administration manager in February 2007. She has over 15 years of human resources and administration experience. Ms. Chen is responsible for overseeing human resources and administration matters of the Group. Prior to joining the Group, from August 2001 to June 2006, she worked as an officer of general management office at Guangdong Zhongke Green Spring Co., Ltd (廣東中科綠源水務有限公司), a company principally engaged in water and wastewater treatment engineering projects, where she was responsible for human resources management.

Ms. Chen graduated from Guangdong Vocational Polytechnic Normal University (廣東職業技術師範學院) (currently known as the Guangdong Polytechnic Normal University (廣東技術師範學院)) in July 2000 with a diploma in electronic engineering. She further obtained a bachelor's degree in human resources management from Nanjing University of Science and Technology (南京理工大學) in July 2005. Ms. Chen is certified to be a human resources professional admitted by Ministry of Labour and Social Security of the PRC (中華人民共和國勞動和社會保障部) in February 2006. She is also certified to be an assistant economist by the Human Resources and Social Security Bureau of Guangzhou Development District, the PRC (廣州開發區人力資源和社會保障局) in February 2012.

Mr. LENG De Rong (冷德榮先生), aged 44, is the head of finance department of the Company in China. Mr. Leng joined the Group in May 2014 and is responsible for the Group's financial management in China. Prior to joining the Group, Mr. Leng was responsible for financial management at Tianci Hi-tech Material Co., Ltd. (天賜高新材料股份公司) (a company listed on the Shenzhen Stock exchange (stock code: 2709)) and Doppler Electronic Technologies Co., Ltd. (多浦樂電子科技公司). He has years of experience in financial management at listed companies and high-tech companies. Mr. Leng obtained the qualification of an intermediate accountant in May 2009 and a Chinese certified tax agent in August 2012.

Mr. TSUI Kan Chun (**徐勤進先生**), aged 49, is our chief financial officer and the company secretary of the Company. Mr. Tsui joined the Group in March 2015. Mr. Tsui was appointed the chief financial officer and the company secretary of the Company on 27 May 2015. He has over 20 years of experience in auditing, finance and accounting. Mr. Tsui is responsible for overseeing the accounting and financial operations of the Group. Prior to joining the Group, from September 2012 to July 2014, he was the company secretary, authorised representative and chief financial officer of Blue Sky Power Holdings Limited (now changed the company name to Beijing Gas Blue Sky Holdings Limited), a company listed on the Main board of the Stock Exchange (stock code: 6828). From May 2007 to July 2012, he worked as a company secretary, authorised representative and group financial controller of Shanghai Tonva Petrochemical Co., Ltd. (now changed the company name to Shanghai Dasheng Agriculture Finance Technology Co., Ltd.), a company listed on the Main board of the Stock Exchange (stock code: 1103).

Mr. Tsui graduated from the University of Wollongong in Australia with a bachelor's degree in accountancy in May 1997. He further obtained a master's degree in corporate governance from Hong Kong Polytechnic University in December 2006. Mr. Tsui is an associate member of the Hong Kong Institute of Certified Public Accountants, a member of the Certified Practising Accountants in Australia and an associate member of the Hong Kong Institute of Chartered Secretaries.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF CHINA TIANYF HOLDINGS GROUP LIMITED
(FORMERLY KNOWN AS "GREAT WATER HOLDINGS LIMITED")
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China TianYF Holdings Group Limited (formerly known as "Great Water Holdings Limited") (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 68 to 137, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

KEY AUDIT MATTERS *(continued)*

(i) Revenue Recognition

Refer to Note 9 to the consolidated financial statements.

For sales contracts which are bundled sales with equipment, management identified different performance obligations based on its contracts with the customers. For sales involving more than one performance obligations, management allocate the transaction price to these performance obligations based on relative standalone selling prices. As the standalone selling prices are not readily observable in the market, management has exercised significant judgement to determine the relevant transaction prices based on expected cost plus a margin approach. Margins are determined considering various factors (e.g. the construction scale, technique, schedule) which involve a significant degree of management judgement.

Whilst revenue from contract work is recognised progressively over time using the input method. The percentage of completion was calculated based on costs incurred for work performed compared to the estimated total contract costs.

As these contracts sometimes span over reporting periods, changes in the estimate of total contract costs or the inappropriate recording of costs around the year end could result in material amounts of revenue being recorded in the incorrect period.

Our audit procedures included, among others:

— Evaluating the design, implementation and operating effectiveness of key internal controls over revenue recognition progress to ascertain the effectiveness of the internal control;

— Inspecting the terms and conditions of significant contracts to assess whether the identification of performance obligations and allocation of transaction prices are in accordance with the Group's accounting policies, with reference to the requirements of the prevailing accounting standards;

— Conducting site visits to a selection of projects in progress as at year end, physically inspecting the progress of individual projects and discussing with the Group's management and project managers the physical status of the projects in progress with reference to the specifications in the contracts;

— Inquiring with the engineer of the Group about the technique for the construction contracts and challenging the margin by comparing the historical and existing projects of the Group;

— Reviewing the management's expected cost budget by checking the signed contracts with suppliers and the budget base if labour and overhead and comparing the actual costs incurred with the budgeted contract costs for the selected samples of construction contracts;

— Checking the incurred cost documentations, including the material acceptance notes, final completion notes, labour and overhead calculation worksheets, purchase invoices and bank slips to ensure the cost was recorded in the proper period; and

— Checking the calculation of revenue recognition based on the costs incurred towards satisfying the relative performance obligation.

We consider that the Group's revenue recognition are supported by available evidence.

KEY AUDIT MATTERS *(continued)*

(ii) Impairment provision of trade receivables and contract assets

Refer to Note 25 and Note 26 to the consolidated financial statements.

The Group's trade receivables and contract assets amounted to RMB155 million, representing approximately 62% of the current assets as at 31 December 2022.

Loss allowances for trade receivables and contract assets are based on management's estimate of the lifetime expected credit losses ("ECL") to be incurred, which is estimated by taking the past events, current conditions and forecasts of future economic conditions (e.g. credit loss experience, ageing of trade receivables, customers' repayment histories and financial positions, etc) into account. The Group needs to group receivables and contract assets into various customer segments that have similar credit risk patterns and considers how it can incorporate forward-looking information into its historical customer collectability rates, in which a significant degree of management judgement is involved.

Our audit procedures included, among others:

— Reviewing the ECL model prepared by the management and the relevant disclosures;

— Evaluating the Group's credit control policy and testing controls over the Group's receivables collection and construction projects' acceptance processes;

— Verifying the customer nature, background, credit standing for each of the material trade receivables and contract assets as at year end by performing public research and making inquiry of major customers, confirming the on-going business relationship and project status by sending letters to corroborate explanations from management;

— Reviewing the Group's assessment of ECLs at the end of the reporting period by checking the correctness of the ageing of balance, the repayment history of the debtors, and the information related to the forecasts of future economic conditions; and

— Circularising confirmations and checking bank receipts subsequent to the year end.

We consider that the Group's impairment provision of trade receivables and contract assets are supported by the available evidence.

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 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.

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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

https://www.hkicpa.org.hk/en/Standards-setting/Standards/Our-views/auditre

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Wan Ho Yuen
Audit Engagement Director
Practising Certificate Number P04309

Hong Kong, 22 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	**2022** **RMB'000**	2021 RMB'000
REVENUE	9	**256,749**	118,377
Cost of sales		**(233,184)**	(102,948)
Gross profit		**23,565**	15,429
Other income and gains	10	**2,659**	3,465
Selling and distribution expenses		**(1,630)**	(1,397)
Administrative expenses		**(25,197)**	(26,733)
Impairment losses on financial and contract assets	12	**(3,375)**	(3,481)
Other expenses		**(5,853)**	(1,697)
Finance costs	11	**(2,230)**	(2,591)
LOSS BEFORE TAXATION		**(12,061)**	(17,005)
Income tax credit/(expense)	14	**514**	(37)
LOSS FOR THE YEAR	12	**(11,547)**	(17,042)
Other comprehensive income/(loss) for the year, net of tax:			
Items that will not be reclassified to profit or loss:			
Gain on property revaluation		**6,118**	–
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**12**	(36)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**6,130**	(36)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(5,417)**	(17,078)
LOSS PER SHARE	16		
Basic and diluted (RMB)		**(0.04)**	(0.06)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	**7,433**	9,673
Investment properties	18	**30,200**	25,400
Right-of-use assets	19	**352**	500
Other intangible assets	20	**312**	1,027
Prepayments, other receivables and other assets	27	**42**	6
Receivables under a service concession arrangement	22	**39,438**	46,479
Equity investments designated at fair value through other comprehensive income	23	**3,400**	3,400
		81,177	86,485
CURRENT ASSETS			
Inventories	24	**12,567**	4,357
Receivables under a service concession arrangement	22	**7,041**	6,959
Trade and bills receivables	25	**127,427**	111,818
Contract assets	26	**27,102**	53,084
Prepayments, other receivables and other assets	27	**17,838**	26,700
Pledged deposits	28	**2,888**	9,140
Cash and cash equivalents	28	**55,260**	46,009
		250,123	258,067
CURRENT LIABILITIES			
Trade payables	29	**181,652**	127,652
Other payables and accruals	30	**45,614**	97,085
Interest-bearing bank and other borrowings	31	**25,097**	38,582
Tax payable		**2,046**	1,451
		254,409	264,770
NET CURRENT LIABILITIES		**(4,286)**	(6,703)
TOTAL ASSETS LESS CURRENT LIABILITIES		**76,891**	79,782
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**98**	175
Deferred tax liabilities	32	**5,740**	4,784
		5,838	4,959
NET ASSETS		**71,053**	74,823

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CAPITAL AND RESERVES			
Equity attributable to owners of the Company			
Share capital	*33*	**2,397**	2,397
Reserves	*34*	**68,656**	72,426
TOTAL EQUITY		**71,053**	74,823

The consolidated financial statements on pages 68 to 137 were approved and authorised for issue by the board of directors on 22 March 2023 and are signed on its behalf by:

Approved by:

Xie Yang	**He Xuan Xi**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company										
	Share capital *RMB'000* *(Note 33)*	**Share premium^*** *RMB'000*	**Merger reserve^*** *RMB'000*	**Asset revaluation reserve*** *RMB'000*	**Statutory surplus reserve#*** *RMB'000*	**Share-based payment reserve*** *RMB'000*	**Exchange fluctuation reserve*** *RMB'000*	**Accumulated losses*** *RMB'000*	**Subtotal** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total** *RMB'000*
At 1 January 2021	2,397	98,818	(13,830)	9,134	15,029	–	3,937	(23,584)	91,901	(6)	91,895
Loss for the year	–	–	–	–	–	–	–	(17,042)	(17,042)	–	(17,042)
Other comprehensive loss for the year:											
Exchange difference on translation of foreign operations	–	–	–	–	–	–	(36)	–	(36)	–	(36)
Total comprehensive loss for the year	–	–	–	–	–	–	(36)	(17,042)	(17,078)	–	(17,078)
Deregistration of a subsidiary	–	–	–	–	–	–	–	–	–	6	6
At 31 December 2021	2,397	98,818	(13,830)	9,134	15,029	–	3,901	(40,626)	74,823	–	74,823
At 1 January 2022	**2,397**	**98,818**	**(13,830)**	**9,134**	**15,029**	**–**	**3,901**	**(40,626)**	**74,823**	**–**	**74,823**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(11,547)**	**(11,547)**	**–**	**(11,547)**
Other comprehensive loss for the year:											
Gain on property revaluation	**–**	**–**	**–**	**6,118**	**–**	**–**	**–**	**–**	**6,118**	**–**	**6,118**
Exchange difference on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**12**	**–**	**12**	**–**	**12**
Total comprehensive loss for the year	**–**	**–**	**–**	**6,118**	**–**	**–**	**12**	**(11,547)**	**(5,417)**	**–**	**(5,417)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**1,647**	**–**	**–**	**1,647**	**–**	**1,647**
At 31 December 2022	**2,397**	**98,818**	**(13,830)**	**15,252**	**15,029**	**1,647**	**3,913**	**(52,173)**	**71,053**	**–**	**71,053**

* These reserve accounts comprise the consolidated reserves of RMB68,656,000 (2021: RMB72,426,000) in the consolidated statement of financial position.

^ The merger reserve of the Group represents the capital contributions from the equity holders of certain subsidiaries now comprising the Group before the completion of the Group's reorganisation (the "Reorganisation") which was completed on 10 July 2015. The Reorganisation only involved the addition of new holding entities on top of Great Water Guangzhou Environmental Protection Co., Ltd., then the holding company of the Group, and has not resulted in any change of economic substances.

Pursuant to the relevant laws and regulations relating to foreign investment enterprises, a portion of the profits of certain subsidiaries in the People's Republic of China (the "PRC") is required to be transferred to the PRC statutory surplus reserve which is restricted as to use. These PRC entities are not required to make any further transfer when the amount of the PRC statutory surplus reserve reaches 50% of their registered capital. The PRC statutory surplus reserve can be used to offset their accumulated losses or to increase their registered capital, provided the remaining balance of the PRC statutory surplus reserve is not less than 25% of the registered capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 *RMB'000*	2021 *RMB'000*
Loss before taxation	**(12,061)**	(17,005)
Adjustments for:		
Finance cost	**2,230**	2,591
Bank interest income	**(182)**	(223)
Fair value loss/(gain) on investment properties	**5,355**	(900)
Depreciation of property, plant and equipment	**566**	2,104
Depreciation of right-of-use assets	**172**	138
Amortization of other intangible assets	**715**	715
Loss on disposal of property, plant and equipment	**–**	1,411
Loss/(gain) on deregistration of a subsidiary	**146**	(76)
(Reversal of impairment)/impairment loss on trade receivables	**(192)**	872
(Reversal of impairment)/impairment loss on contract assets	**(326)**	1,563
Impairment loss on prepayments, other receivables and other assets	**3,893**	1,046
Loss on written-off of property, plant and equipment	**1**	8
Gain on early termination	**–**	(15)
Share-based payments	**1,647**	–
Operating cash flows before movements in working capital	**1,964**	(7,771)
Change in inventories	**(8,210)**	6,971
Change in receivables under service concession arrangements	**6,959**	4,381
Change in trade and bills receivables	**(15,456)**	(17,058)
Change in contract assets	**26,308**	(4,036)
Change in prepayments, other receivables and other assets	**4,934**	(16,420)
Change in pledged deposits	**6,252**	(4,236)
Change in trade payables	**54,000**	2,027
Change in other payables and accruals	**(51,471)**	44,475
Cash generated from operations	**25,280**	8,333
Interest received	**182**	223
Lease interest paid	**(11)**	(43)
Net cash flows generated from operating activities	**25,451**	8,513
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(316)**	(301)
Proceeds from disposal of property, plant and equipment	**–**	172
Purchases of equity investments designated at fair value through other comprehensive income	**–**	(1,900)
Purchase of other intangible assets	**–**	(1)
Net cash flows used in investing activities	**(316)**	(2,030)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022	2021
	RMB'000	*RMB'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	**25,000**	38,000
Repayments of bank loans	**(38,497)**	(42,821)
Interest paid	**(2,219)**	(2,548)
Principal portion of lease payments	**(65)**	(50)
Net cash flows used in financing activities	**(15,781)**	(7,419)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**9,354**	(936)
Cash and cash equivalents at beginning of year	**46,009**	46,611
Net foreign exchange difference	**(103)**	334
Cash and cash equivalents at end of year	**55,260**	46,009
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**55,260**	46,009

1. GENERAL INFORMATION

China TianYF Holdings Group Limited (formerly known as "Great Water Holdings Limited") (the "Company") was incorporated on 25 March 2015 as an exempted company in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite A, 20/F, Wah Hen Commercial Centre, 383 Hennessy Road, Hong Kong. The shares of the Company were listed on the GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2015 (the "Listing").

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in environmental protection business, such as wastewater treatment and soil remediation, through design, construction, operation and maintenance service of related facilities and trading of related equipment.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS"); and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments which have been measured at fair value. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

During the year ended 31 December 2022, the Company and its subsidiaries (collectively referred to as the "Group") recorded a consolidated net loss of RMB11,547,000 (2021: RMB17,042,000). As at 31 December 2022, the Group had net current liabilities of RMB4,286,000 (2021: RMB6,703,000).

The directors of the Company have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the reporting period. They are of the opinion that, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2022 on a going concern basis.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2022. HKFRSs comprise HKFRS; HKAS; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the consolidated financial statements of the Group.

New/Revised HKFRSs

HKFRS 17	Insurance Contracts+
HKAS 1	Amendments in relation to Disclosure of Accounting Policies+
HKAS 8	Amendments in relation to Definition of Accounting Estimates+
HKAS 12	Amendments in relation to Deferred Tax related to Assets and Liabilities arising from a Single Transaction+
HK-int 5	Amendments in relation to Amendments to HKAS 1^
HKFRS 16	Amendments in relation to Lease Liability in a Sale and Leaseback^
HKAS 1	Amendments in relation to Classification of Liabilities as Current or Non-current^
HKAS 1	Amendments in relation to Non-current Liabilities with Covenants^
HKFRS 10 and HKAS 28	Amendments in relation to Sale or Contribution of Assets between an Investor and its Associate or Joint Venture@

\+ Effective for accounting period beginning on or after 1 January 2023

^ Effective for accounting period beginning on or after 1 January 2024

@ No mandatory effective date yet determined but available for adoption

4. SIGNIFICANT ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, 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. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Consolidation *(continued)*

Intragroup transactions, balances and unrealized profits are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

Foreign currency translation

(i) 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 consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognized in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

For the year ended 31 December 2022

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation *(continued)*

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's 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 of financial position;

— Income and expenses 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 exchange rates on the transaction dates); and

— All resulting exchange differences are recognized in the translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognized in the translation reserve. When a foreign operation is sold, such exchange differences are recognized in consolidated profit or loss as part of the gain or loss on disposal.

Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognized 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. All other repairs and maintenance are recognized in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The estimated annual rates are as follows:

Buildings	1.9% to 5%
Building improvements	20%
Electronic equipment	19% to 33%
Dedicated equipment	19%
Furniture and fixtures	19%
Motor vehicles	19%

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized in profit or loss.

Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognized in profit or loss for the period in which they arise.

If an investment property becomes owner-occupied or a property held for sale, it is reclassified as property, plant and equipment or properties held for sale as appropriate, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognized as a revaluation of property, plant and equipment.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognized in profit or loss.

Leases

The Group as lessee

Leases are recognized as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal useful lives are as follows:

Leasehold land	20 years
Office	2 years

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

The Group as lessee *(continued)*

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognized as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

The Group as lessor

(i) Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

(ii) Finance leases

Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as finance leases. Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the leases.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted average basis. Net realizable 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognized when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid is recognized in profit or loss.

Financial assets

Financial assets are recognized and derecognized on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognized at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

— Financial assets at amortized cost; and
— Equity investments at fair value through other comprehensive income

(i) Financial assets at amortized cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

— the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

— the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortized cost using the effective interest method less loss allowance for expected credit losses.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets *(continued)*

(ii) Equity investments at fair value through other comprehensive income

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments that are not held for trading as at fair value through other comprehensive income.

Equity investments at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising from changes in fair values recognized in other comprehensive income and accumulated in the equity investment revaluation reserve. On derecognition of an investment, the cumulative gains or losses previously accumulated in the equity investment revaluation reserve are not reclassified to profit or loss.

Dividends on these investments are recognized in profit or loss, unless the dividends clearly represent a recovery of part of the cost of the investment.

Loss allowances for expected credit losses

The Group recognizes loss allowances for expected credit losses on financial assets at amortized cost and contract assets. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables and contract assets, or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables and contract assets) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognized in profit or loss as an impairment gain or loss.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. The accounting policies adopted for specific financial liabilities are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial assets and liabilities

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

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred, and subsequently measured at amortized cost using the effective interest method.

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.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortized cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Service concession arrangements

A service concession arrangement refers to a contractual service arrangement granted by a government authority in Mainland China (the "Grantor") to allow the Group to operate an infrastructure to provide to the public. Such arrangement involves the Group to develop, finance, operate, and maintain the public-service infrastructure for a specified period of time for a service fee. At the end of the service period, the Group is obligated to hand over the infrastructure to the Grantor in a specified condition for little or no incremental consideration.

Such service concession arrangement is governed by a contract between the Group and the relevant Grantor which sets out, inter alia, performance standards, the mechanism for service fee adjustment, specific obligations of the Group for the maintenance of the infrastructure and arrangement for arbitrating disputes.

A service concession arrangement is classified as a financial assert model under HK(IFRIC)-Int 12 and is recognized as a financial asset — Receivables under a service concession arrangement when (a) the Group has an unconditional right to receive cash or another financial asset from, or at the direction of, the Grantor for the construction service rendered and/or the consideration paid and payable by the Group for the right to charge users of the public service; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Group (a) specified or determinable amounts or (b) the shortfall, if any, between amounts received from users of the public service and the specified or determinable amounts, even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. During the period of construction of the infrastructures, the relevant portion of consideration of consideration of construction services rendered included in the receivables under service concession arrangements is accounted for as "contract assets". Upon completion of construction, the relevant portion of consideration of construction services rendered included in the receivables under a service concession arrangement is accounted for as financial assets under the accounting policy for "financial assets at amortized cost".

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance;

— the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— the Group's performance does 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.

If a performance obligation is satisfied over time, revenue is recognized by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the product or service.

Other revenue

Interest income is recognized using the effective interest method.

Rental income is recognized on a straight-line basis over the lease term.

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

Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

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

Share-based payments

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The Group issues equity-settled share-based payments to certain directors, employees and consultants.

Equity-settled share-based payments to directors and employees are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Equity-settled share-based payments to consultants are measured at the fair value of the services rendered or if the fair value of the services rendered cannot be reliably measured, at the fair value of the equity instruments granted. The fair value is measured at the date the Group receives the services and is recognised as an expense.

For cash-settled share-based payments, the Group measures the goods or services acquired and the liability incurred at the fair value of the liability. At the end of each reporting period, the liability is remeasured at its fair value until the liability is settled, with any changes in fair value recognised in profit or loss.

The Group also provides employees with the ability to purchase the Company's ordinary shares at a discount to the current market value. The Group records an expense, based on the fair value of the discount related to shares expected to vest (taking in account the post vesting transfer restrictions), on a straight-line basis over the vesting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

Government grants

A government grant is recognized when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognized in profit or loss over the period to match them with the costs they are intended to compensate.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognized in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognized in profit or loss, except when it relates to items recognized in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model of the Group whose business objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured based on the expected manner as to how the properties will be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Dividends

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

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

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

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

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

Intangible assets that have an indefinite useful life or not yet available for use are reviewed annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and other intangible assets except investment properties, investments, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognized in the consolidated financial statements.

(a) Classification between intangible assets or financial assets and property, plant and equipment under service concession arrangements

The Group makes judgement in determining whether a service concession arrangement is classified as an intangible asset or financial asset in accordance with HK(IFRIC)-Int 12, or as property, plant and equipment in accordance with HKAS 16. For a service concession arrangement where (a) the Grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the Grantor controls, through ownerships, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, no property, plant and equipment is recognized.

The Group further determines whether a financial asset exists to the extent that (a) it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the Grantor; and (b) the Grantor has little, if any, discretion to avoid payment, usually because the agreement is enforceable by law. The Group will otherwise recognize a service concession arrangement as an intangible asset if the above conditions are not fulfilled.

(b) Revenue from contracts with customers

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

Identifying performance obligations in construction projects with sale of equipment

The Group provides construction projects with sale of equipment. The construction services are a promise to transfer services in the future and are part of the negotiated exchange between the Group and the customer.

The Group determined that both sale of equipment and construction services are each capable of being distinct. The fact that the Group regularly sells both equipment and construction services on a standalone basis indicates that the customer can benefit from both products on their own. The Group also determine that the promises to transfer the equipment and to provide construction services are distinct within the context of the contract. The equipment and construction services are not inputs to a combined item in the contract. The Group is not providing a significant integration service because the presence of the equipment and construction services together in the contract does not result in any additional or combined functionality and neither the equipment nor the construction modifies or customizes the other. In addition, the equipment and construction modifies or customizes the other. In addition, the equipment and construction services are not highly interdependent or highly interrelated, because the Group would be able to transfer the equipment even if the customer declined installation and would be able to provide construction services in relation to equipment sold by other distributors. Consequently, the Group has allocated a portion of the transaction price to the equipment and the construction services based on relative standalone selling prices.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

Critical judgements in applying accounting policies *(continued)*

(b) Revenue from contracts with customers *(continued)*

Determining the transaction price and the amounts allocated to performance obligations in construction projects with sale of equipment

To determine the proper revenue recognition method for contracts for construction projects with sale of equipment, the Group separate the contract into more than one performance obligation. Moreover, standalone selling prices for each performance obligation is not readily observable. The Group use the expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

Determining the timing of satisfaction of construction projects

The Group conducted that revenue for construction services is recognized over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the construction that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group determined that the input method is the best method in measuring the progress of the construction services because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The Group recognizes revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

(c) Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals and another portion that is held for use in the production of goods. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production of goods. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgement.

(d) Deferred tax for investment properties

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties, the directors have rebutted the presumption that investment properties measured using the fair value model are recovered through sale.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty

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

(a) Provision for expected credit losses on trade receivables and contract assets

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

The provision matrix is initially based on the Group's evaluation of historical observed collectability rate and ageing analysis and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their abilities to make payments, additional allowances may be required.

The assessment of the correlation among historical observed collectability rate, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets are disclosed in notes 25 and 26 to the consolidated financial statements, respectively.

(b) Estimation of fair value of investment properties

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

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

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

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

The carrying amount of investment properties at 31 December 2022 was RMB30,200,000 (2021: RMB25,400,000). Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 18 to the consolidated financial statements.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(continued)*

Key sources of estimation uncertainty *(continued)*

(c) Provision for income taxes

Provision for income taxes is made based on the taxable income for the period as determined by the Group. The determination of taxable income involves the exercise of judgement on interpretation of the relevant tax rules and regulations. The amounts of income taxes and hence profit and loss could be affected by any interpretations and clarifications which the tax authority may issue from time to time.

(d) Impairment of non-financial assets

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

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, interest rate risk, price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as certain business transactions, assets and liabilities are denominated in the foreign currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

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6. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Foreign currency risk *(continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong dollars ("HK$"), United States dollar ("US$") and Vietnam Dong ("VND") exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in loss before tax	Increase/ (decrease) in equity*
	%	*RMB'000*	*RMB'000*
2022			
If the RMB weakness against the VND	**5**	**44**	**35**
If the RMB strengthens against the VND	**(5)**	**(44)**	**(35)**
If the RMB weakness against the US$	**5**	**625**	**625**
If the RMB strengthens against the US$	**(5)**	**(625)**	**(625)**
If the RMB weakness against the HK$	**5**	**592**	**592**
If the RMB strengthens against the HK$	**(5)**	**(592)**	**(592)**
2021			
If the RMB weakness against the VND	5	39	18
If the RMB strengthens against the VND	(5)	(39)	(18)
If the RMB weakness against the US$	5	449	449
If the RMB strengthens against the US$	(5)	(449)	(449)
If the RMB weakness against the HK$	5	229	229
If the RMB strengthens against the HK$	(5)	(229)	(229)

* Excluding retained profits

(b) Interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to interest-rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

(c) Price risk

The Group's equity investments designated at fair value through other comprehensive income are measured at fair value at the end of the reporting period. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by maintaining a portfolio of investments with difference risk profiles.

(d) Credit risk

The carrying amount of the cash and bank balances, trade and other receivables, contract assets and receivables under a service concession arrangement included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

6. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Credit risk *(continued)*

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following information is used:

— internal credit rating;

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

— actual or expected significant changes in the operating results of the borrower;

— significant increases in credit risk on other financial instruments of the same borrower; and

— significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorizes a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

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6. FINANCIAL RISK MANAGEMENT *(continued)*

(d) Credit risk *(continued)*

The Group uses three categories for non-trade receivables which reflect their credit risk and how the loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Stage 1	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. At the end of the reporting period, the Group had certain concentrations of credit risk as 40% (2021: 45%) of the Group's trade receivables were due from the Group's five largest customers. Other than that, the Group has no significant concentrations of credit risk.

(e) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The maturity analysis, based on undiscounted cash flows, of the Group's financial liabilities is as follows:

31 December 2022	**On demand** *RMB'000*	**Less than 3 months** *RMB'000*	**3 to less than 12 months** *RMB'000*	**More than 12 months** *RMB'000*	**Total** *RMB'000*
Lease liabilities	–	45	59	100	204
Interest-bearing bank and other borrowings (excluding lease liabilities)	–	25,053	–	–	25,053
Trade payables	181,652	–	–	–	181,652
Financial liabilities included in other payables and accruals	30,617	–	–	–	30,617
	212,269	25,098	59	100	237,526

For the year ended 31 December 2022

6. FINANCIAL RISK MANAGEMENT *(continued)*

(e) Liquidity risk *(continued)*

31 December 2021	On demand *RMB'000*	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	More than 12 months *RMB'000*	Total *RMB'000*
Lease liabilities	–	41	54	182	277
Interest-bearing bank and other borrowings (excluding lease liabilities)	–	18,835	20,606	–	39,441
Trade payables	127,652	–	–	–	127,652
Financial liabilities included in other payables and accruals	31,073	–	–	–	31,073
	158,725	18,876	20,660	182	198,443

(f) Categories of financial instruments

	2022 ***RMB'000***	2021 *RMB'000*
Financial assets:		
Equity investments designated at fair value through other comprehensive income	**3,400**	3,400
Financial assets at amortized cost		
— Receivables under a service concession arrangement	**46,479**	53,438
— Trade and bills receivables	**127,427**	111,818
— Prepayments, other receivables and other assets	**5,359**	2,908
— Pledged deposits	**2,888**	9,140
— Cash and cash equivalents	**55,260**	46,009
	237,413	223,313
	240,813	226,713
Financial liabilities:		
Financial liabilities at amortized cost		
— Trade payables	**181,652**	127,652
— Other payables and accruals	**30,617**	31,073
— Interest-bearing bank and other borrowings	**25,195**	38,757
	237,464	197,482

For the year ended 31 December 2022

6. FINANCIAL RISK MANAGEMENT *(continued)*

(g) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 2021.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables and certain other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the Company.

The gearing ratios as at the end of the reporting periods were as follows:

	2022 ***RMB'000***	2021 *RMB'000*
Interest-bearing bank and other borrowings	**25,195**	38,757
Trade payables	**181,652**	127,652
Financial liabilities included in other payables and accruals	**30,617**	31,073
Less: Cash and cash equivalents	**(55,260)**	(46,009)
Net debt	**182,204**	151,473
Total capital	**71,053**	74,823
Capital and net debt	**253,257**	226,296
Gearing ratio	**72%**	67%

(h) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs:	quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2 inputs:	inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs:	unobservable inputs for the asset or liability.

The Group's policy is to recognize transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosures of level in fair value hierarchy:

Description	**Fair value measurements using:** **Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Recurring fair value measurements at 31 December 2022:			
Equity investments designated at fair value through other comprehensive income			
Private equity investments	**–**	**3,400**	**3,400**
Investment properties			
Industrial properties — PRC	**30,200**	**–**	**30,200**
Total recurring fair value measurements	**30,200**	**3,400**	**33,600**

Description	Fair value measurements using: Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Recurring fair value measurements at 31 December 2021:			
Equity investments designated at fair value through other comprehensive income			
Private equity investments	–	3,400	3,400
Investment properties			
Industrial properties — PRC	25,400	–	25,400
Total recurring fair value measurements	25,400	3,400	28,800

There were no transfers between Level 1, 2 and 3 fair value measurements in both years.

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7. FAIR VALUE MEASUREMENTS *(continued)*

(b) Reconciliation of assets measured at fair value based on level 3:

Description	**Equity investments designated at fair value through other comprehensive income** *RMB'000*	**Total** *RMB'000*
At 1 January 2022 and 31 December 2022	**3,400**	**3,400**

Description	Equity investments designated at fair value through other comprehensive income *RMB'000*	Total *RMB'000*
At 1 January 2021	1,500	1,500
Addition during the year *(Note 23)*	1,900	1,900
At 31 December 2021	3,400	3,400

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2022:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognized professional qualifications and recent experience to perform the valuations.

For the year ended 31 December 2022

7. FAIR VALUE MEASUREMENTS *(continued)*

Level 2 fair value measurements

Description	**Valuation technique**	**Inputs**	**Fair value 2022** ***RMB'000***
Industrial investment properties — PRC	**Direct comparison approach**	**Market unit selling price**	**30,200**

Description	Valuation technique	Inputs	2021 *RMB'000*
Industrial investment properties — PRC	Direct comparison approach	Market unit selling price	25,400

Level 3 fair value measurements

Description	**Valuation technique**	**Unobservable inputs**	**Effect on fair value for increase of inputs**	**Total 2022** ***RMB'000***
Private equity investments classified as equity investments at fair value through other comprehensive income	**Net asset value**	**N/A**	**N/A**	**3,400**

Description	Valuation technique	Unobservable inputs	Effect on fair value for increase of inputs	Total 2021 *RMB'000*
Private equity investments classified as equity investments at fair value through other comprehensive income	Net asset value	N/A	N/A	3,400

During the two years, there were no changes in the valuation techniques used.

8. SEGMENT INFORMATION

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

(1) the engineering, procurement and construction project ("EPC Projects") segment comprises projects in which an enterprise is commissioned by a customer to act as a general contractor to take care of the overall design, procurement and construction of sludge or wastewater treatment facilities pursuant to the contract and be responsible for the quality, safety, time control and pricing of the project;

(2) the construction projects ("Construction Projects") segment represents construction projects other than EPC Projects;

(3) the equipment projects ("Equipment Projects") segment comprises projects in which an enterprise is engaged by a customer for procurement of necessary materials, equipment and machinery, installation, testing and commissioning of the equipment and machinery for the treatment facilities as well as provision of technical consulting services to upgrade or optimize the design of the water or wastewater treatment facilities pursuant to the contract;

(4) the service concession arrangement ("Service Concession Arrangement") segment comprises projects in which provides the construction of sludge treatment and operation of the sludge station upon the completion of construction for a long period, i.e. 10 years. The fee received under this arrangement for the provision of operation services includes a guaranteed tariff based on a guaranteed minimum treatment volume together with an additional tariff in excess of the minimum volume. Restoration of the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement is necessary. According to the term of such arrangement, the Group is responsible for all of the costs in construction, operation and maintenance as well as restoration of the infrastructure; and

(5) the "Others" segment comprises, principally, the Group's operation and maintenance services in which as enterprise of the Group is retained to operation and maintenance water or wastewater treatment facilities for a certain period for certain operation and maintenance fees on a monthly or quarterly basis.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, non-lease-related finance costs, impairment losses on financial and contract assets, fair value changes from the Group's investment properties as well as head office and corporate gains and expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents, property, plant and equipment, investment properties, right-of-use assets, equity investments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities, interest-bearing bank and other borrowings and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

8. SEGMENT INFORMATION *(continued)*

Information about reportable segment profit or loss, assets and liabilities:

	EPC Projects *RMB'000*	**Construction Projects** *RMB'000*	**Equipment Projects** *RMB'000*	**Service Concession Arrangement** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2022						
Revenue from external customers	**10,634**	**1,675**	**218,795**	**16,014**	**9,631**	**256,749**
Segment profit	**2,244**	**326**	**14,773**	**1,888**	**4,334**	**23,565**
Depreciation	**–**	**–**	**–**	**–**	**1,281**	**1,281**
Additions to segment non-current assets	**–**	**–**	**–**	**–**	**316**	**316**
As at 31 December 2022						
Segment assets	**29,310**	**14,996**	**122,011**	**59,569**	**3,055**	**228,941**
Segment liabilities	**42,861**	**16,646**	**100,193**	**36,195**	**754**	**196,649**

	EPC Projects *RMB'000*	Construction Projects *RMB'000*	Equipment Projects *RMB'000*	Service Concession Arrangement *RMB'000*	Others *RMB'000*	Total *RMB'000*
Year ended 31 December 2021						
Revenue from external customers	19,800	286	72,792	19,244	6,255	118,377
Segment profit	10,021	28	660	2,160	2,560	15,429
Depreciation	–	–	–	–	2,957	2,957
Additions to segment non-current assets	–	–	–	–	301	301
As at 31 December 2021						
Segment assets	43,115	15,816	123,795	65,076	4,073	251,875
Segment liabilities	48,365	25,302	94,594	24,901	502	193,664

For the year ended 31 December 2022

8. SEGMENT INFORMATION *(continued)*

Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:

	2022	2021
	RMB'000	*RMB'000*
Revenue		
Total revenue of reportable segments	**256,749**	118,377
Consolidated revenue	**256,749**	118,377
Profit or loss		
Total profit or loss of reportable segments	**23,565**	15,429
Interest income	**182**	223
Unallocated gains	**2,477**	3,242
Impairment losses on financial and contract assets	**(3,375)**	(3,481)
Corporate and other unallocated expenses	**32,691**	(29,870)
Finance costs (other than interest on lease liabilities)	**(2,219)**	(2,548)
Consolidated loss before tax	**(12,061)**	(17,005)
Assets		
Total assets of reportable segments	**228,941**	251,875
Corporate and other unallocated assets	**102,359**	92,677
Total assets	**331,300**	344,552
Liabilities		
Total liabilities of reportable segments	**196,649**	193,664
Corporate and other unallocated liabilities	**63,598**	76,065
Total liabilities	**260,247**	269,729

8. SEGMENT INFORMATION *(continued)*

Geographical information:

	Revenue		Non-current assets	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China	**255,074**	118,337	**37,984**	36,426
Vietnam	**1,675**	40	**355**	180
	256,749	118,377	**38,339**	36,606

In presenting the geographical information, revenue is based on the locations of the customers.

Revenue from major customers:

	2022	2021
	RMB'000	*RMB'000*
EPC projects		
Customer A	**N/A***	13,265
Equipment projects		
Customer B	**208,365**	N/A*
Customer C	**N/A***	38,301
Service concession arrangement		
Customer D	**N/A***	19,244

* The corresponding revenue did not contribute over 10% of the total revenue of the Group in the particular year.

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9. REVENUE

	2022 RMB'000	2021 RMB'000
Sale of equipment	**218,795**	61,952
Construction services	**12,309**	8,059
Other services	**25,645**	48,366
Total revenue from contracts with customers	**256,749**	118,377

Disaggregation of revenue from contracts with customers:

	2022					
Segments	**EPC Projects** *RMB'000*	**Construction Projects** *RMB'000*	**Equipment Projects** *RMB'000*	**Service Concession Arrangement** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Geographical markets						
Mainland China	**10,634**	**–**	**218,795**	**16,014**	**9,631**	**255,074**
Vietnam	**–**	**1,675**	**–**	**–**	**–**	**1,675**
Total	**10,634**	**1,675**	**218,795**	**16,014**	**9,631**	**256,749**
Major products/service						
Sale of equipment	**–**	**–**	**218,795**	**–**	**–**	**218,795**
Construction services	**10,634**	**1,675**	**–**	**–**	**–**	**12,309**
Other services	**–**	**–**	**–**	**16,014***	**9,631**	**25,645**
Total	**10,634**	**1,675**	**218,795**	**16,014**	**9,631**	**256,749**
Timing of revenue recognition						
At a point in time	**–**	**–**	**218,795**	**–**	**–**	**218,795**
Over time	**10,634**	**1,675**	**–**	**16,014**	**9,631**	**37,954**
Total	**10,634**	**1,675**	**218,795**	**16,014**	**9,631**	**256,749**

9. REVENUE *(continued)*

Disaggregation of revenue from contracts with customers: (continued)

	2021					
Segments	EPC Projects *RMB'000*	Construction Projects *RMB'000*	Equipment Projects *RMB'000*	Service Concession Arrangement *RMB'000*	Others *RMB'000*	Total *RMB'000*
Geographical markets						
Mainland China	19,800	246	72,792	19,244	6,255	118,337
Vietnam	–	40	–	–	–	40
Total	19,800	286	72,792	19,244	6,255	118,377
Major products/service						
Sale of equipment	–	–	61,952	–	–	61,952
Construction services	6,535	286	–	1,238	–	8,059
Other services	13,265	–	10,840	18,006*	6,255	48,366
Total	19,800	286	72,792	19,244	6,255	118,377
Timing of revenue recognition						
At a point in time	–	–	61,952	–	–	61,952
Over time	19,800	286	10,840	19,244	6,255	56,425
Total	19,800	286	72,792	19,244	6,255	118,377

* Included in the revenue from other services is an amount of approximately RMB958,000 (2021: RMB1,037,000) of finance income from service concession arrangement for the year ended 31 December 2022.

Sale of equipment

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

The performance obligation is satisfied upon delivery of equipment and payment is generally due within 30 days from the date of issuing tax invoice, extending up to the date of final acceptance of the whole projects for certain customers. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

9. REVENUE *(continued)*

Construction services

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

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of issuing tax invoice, extending up to the date of final acceptance of the whole projects for certain customers. A certain percentage of payment is retained by customers until end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

Other services

Revenue from the provision of other services is recognized over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

The performance obligation is satisfied upon delivery of equipment and payment is generally due within 30 days from the date of issuing tax invoice, extending up to the date of final acceptance of the whole projects for certain customers. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

10. OTHER INCOME AND GAINS

	2022 ***RMB'000***	2021 *RMB'000*
Other income comprise:		
Bank interest income	**182**	223
Rental income from investment property operating leases:		
Other lease payments, including fixed payments	**2,396**	1,788
Government grants	**–**	450
Others	**81**	13
	2,659	2,474
Gains comprise:		
Fair value gain on investment properties *(Note 18)*	**–**	900
Gain on deregistration of a subsidiary	**–**	76
Gain on early termination of lease	**–**	15
	–	991
	2,659	3,465

For the year ended 31 December 2022

11. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank and other borrowings	**2,219**	2,548
Interest on lease liabilities	**11**	43
	2,230	2,591

12. LOSS FOR THE YEAR

The Group's loss for the year is arrived at after charging/(crediting):

	2022 RMB'000	2021 RMB'000
Auditors' remuneration	**1,000**	950
Cost of inventories sold	**204,022**	72,132
Cost of construction contracting	**23,892**	27,120
Cost of services provided	**5,270**	3,696
	233,184	102,948
Depreciation of property, plant and equipment	**566**	2,104
Amortization of other intangible assets	**715**	715
Direct operating expenses (including repairs and maintenance arising from rental-earning investment properties)	**116**	86
Loss on disposal of property, plant and equipment	**–**	1,411
Loss on written-off of property, plant and equipment	**1**	8
Fair value loss/(gain) on investment properties	**5,355**	(900)
Foreign exchange differences, net	**(1,316)**	224
Impairment losses of financial and contract assets:		
(Reversal of impairment)/impairment of trade receivables	**(192)**	872
(Reversal of impairment)/impairment of contract assets	**(326)**	1,563
Impairment of prepayments, other receivables and other assets	**3,893**	1,046
	3,375	3,481
Staff costs including directors' remuneration:		
Wages and salaries	**18,131**	16,296
Pension scheme contributions*	**1,252**	1,451
Other welfare expenses	**437**	2,989
Employee share option benefits (equity-settled)	**1,647**	–
	21,467	20,736

* As at the end of the years 2022 and 2021, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

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

	2022 RMB'000	2021 RMB'000
Fees	**808**	753
Other emoluments:		
Salaries, allowances and benefits in kind	**756**	784
Performance related bonus	**360**	80
Pension scheme contribution	**71**	64
Employee share option benefits (equity-settled)	**914**	–
	2,101	928
	2,909	1,681

(a) Directors' and Chief Executive's Emoluments

		For the year ended 31 December 2022					
	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonus RMB'000	Pension scheme contribution RMB'000	Employee share option benefits (equity-settled) RMB'000	Total RMB'000
Independent non-executive directors:							
Mr. TSE Chi Wai		106	–	–	–	–	106
Mr. HA Cheng Yong		106	–	–	–	–	106
Mr. BAI Shuang		106	–	–	–	–	106
		318	–	–	–	–	318
Executive directors:							
Mr. XIE Yang		244	518	280	40	274	1,356
Mr. HE Xuan Xi		140	238	80	31	92	581
Mr. GAO Xue Feng	*(i)*	–	–	–	–	274	274
Mr. ZHAO Yanwei	*(ii)*	–	–	–	–	274	274
		384	756	360	71	914	2,485
Non-executive director:							
Ms. GONG Lan Lan		106	–	–	–	–	106
		808	756	360	71	914	2,909

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS *(continued)*

(a) Directors' and Chief Executive's Emoluments *(continued)*

		For the year ended 31 December 2021					
		Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonus *RMB'000*	Pension scheme contribution *RMB'000*	Employee share option benefits (equity-settled) *RMB'000*	Total *RMB'000*
Independent non-executive directors:							
Mr. TSE Chi Wai		99	–	–	–	–	99
Mr. HA Cheng Yong		99	–	–	–	–	99
Mr. BAI Shuang		99	–	–	–	–	99
		297	–	–	–	–	297
Executive directors:							
Mr. XIE Yang		227	537	–	36	–	800
Mr. HE Xuan Xi		130	247	80	28	–	485
Mr. GAO Xue Feng	*(i)*	–	–	–	–	–	–
Mr. ZHAO Yanwei	*(ii)*	–	–	–	–	–	–
		357	784	80	64	–	1,285
Non-executive director:							
Ms. GONG Lan Lan		99	–	–	–	–	99
		753	784	80	64	–	1,681

Notes:

(i) Mr. GAO Xue Feng was appointed as an executive director of the Company with effect from 28 January 2022.

(ii) Mr. ZHAO Yanwei was appointed as an executive director of the Company with effect from 10 March 2022.

There were no other emoluments payable to the independent non-executive directors during the current year and the prior year.

Mr. GAO Xue Fung and Mr. ZHAO Yan Wei were appointed as the Company's executive directors on 28 January 2022 and 10 March 2022 respectively. Whilst it has been stated in the Company's announcements dated 28 January 2022 and 10 March 2022 that Mr. GAO Xue Fung and Mr. ZHAO Yan Wei would be entitled to a monthly remuneration of HK$10,000 for their appointment as the Company's executive directors, Mr. GAO Xue Fung and Mr. ZHAO Yan Wei have on 20 March 2023, agreed to waive the remuneration for their appointment as the Company's executive directors for the year ended 31 December 2022. The total amount of directors' remuneration waived by Mr. GAO Xue Fung and Mr. ZHAO Yan Wei during the year ended 31 December 2022 amounted to approximately of HK$220,000. Save as disclosed above, there was no other arrangement under which a director or the chief executive of the Company waived or agreed to waive any remuneration during the year ended 31 December 2022 or 31 December 2021.

During the year and the prior years, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS *(continued)*

(b) Five highest paid individual emoluments

The five highest paid individuals of the Group included two (2021: two) directors, details of whose remuneration are set out above. The emoluments of the remaining three (2021: three) highest paid employees are as follows:

	2022	2021
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**2,037**	2,002
Performance related bonus	**465**	393
Pension scheme contribution	**106**	97
	2,608	2,492

Emoluments of these employees were within the following bands:

	Number of employees	
Emolument band:	**2022**	2021
Nil–HK$1,000,000	**3**	3

14. INCOME TAX (CREDIT)/EXPENSE

	2022	2021
	RMB'000	*RMB'000*
Current tax — PRC		
Under/(over)-provision in prior years	**570**	(64)
Deferred taxation	**(1,084)**	101
Income tax (credit)/expense	**(514)**	37

Hong Kong Profits Tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong for the year, except for one group entity operating in Hong Kong, which is a qualifying corporate under the two-tiered Profits Tax rate regime. For the qualifying group entity, the first HK$2 million of assessable profits are taxed at the rate of 8.25% (2021: 8.25%), and the remaining assessable profits are taxed at the rate of 16.5% (2021: 16.5%).

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiaries which operate in Mainland China are subject to Corporate Income Tax ("CIT") at the rate of 25% on taxable income. Preferential tax treatment is available to the Group's principal operating subsidiary, Great Water Guangzhou, since it was recognised as a High and New Technology Enterprise in Mainland China and a lower PRC CIT rate of 15% had been applied during the years ended 31 December 2022 and 2021.

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14. INCOME TAX EXPENSE *(continued)*

Pursuant to Vietnam Income Tax Law and the respective regulations, the subsidiary which operates in Vietnam is subject to CIT at a rate of 20% on taxable income.

The reconciliation of the tax (credit)/expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	2022	2021
	RMB'000	*RMB'000*
Loss before taxation	**(12,061)**	(17,005)
Tax calculated at weighted average tax rate	**(650)**	(1,778)
Effect on opening deferred tax of decrease in rates	**–**	468
Tax effect of income not taxable and expenses not deductible	**(797)**	789
Tax effect of tax losses not recognized	**363**	628
Under/(over)-provision in prior years	**570**	(64)
Taxation for the year	**(514)**	37

15. DIVIDENDS

The Directors do not recommend the payment of any dividend for each of the years ended 31 December 2022 and 2021.

16. LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the year attributable to owners of the Company of loss of RMB11,547,000 (2021: RMB17,042,000), and the weighted average number of ordinary shares of 300,000,000 (2021: 300,000,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

The calculation of the basic and diluted loss per share is based on the following data:

	2022	2021
	RMB'000	*RMB'000*
Loss		
Loss attributable to owners of the Company for the purpose of basic and diluted loss per share	**(11,547)**	(17,042)

	Number of shares	
	2022	2021
No. of shares		
Weighted average number of shares for the purpose of basic and diluted loss per share	**300,000,000**	300,000,000

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17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Building improvements	Electronic equipment	Dedicated equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST:								
At 1 January 2021	8,100	1,091	617	9,787	1,060	3,518	1,588	25,761
Additions	–	–	27	33	84	157	–	301
Write-off	–	–	(97)	(15)	–	–	–	(112)
Disposals	–	–	(137)	(8,235)	(186)	–	–	(8,558)
At 31 December 2021 and 1 January 2022	8,100	1,091	410	1,570	958	3,675	1,588	17,392
Additions	–	–	27	10	279	–	–	316
Transfer to investment properties	(2,407)	–	–	–	–	–	–	(2,407)
Write-off	–	–	(6)	(20)	–	–	–	(26)
At 31 December 2022	**5,693**	**1,091**	**431**	**1,560**	**1,237**	**3,675**	**1,588**	**15,275**
ACCUMULATED DEPRECIATION AND IMPAIRMENT:								
At 1 January 2021	1,164	1,091	539	6,349	933	2,620	–	12,696
Provided during the year	165	–	20	1,594	39	286	–	2,104
Write-off	–	–	(92)	(12)	–	–	–	(104)
Disposals	–	–	(129)	(6,670)	(176)	–	–	(6,975)
Exchange realignment	–	–	–	–	–	(2)	–	(2)
At 31 December 2021 and 1 January 2022	1,329	1,091	338	1,261	796	2,904	–	7,719
Provided during the year	123	–	16	104	73	250	–	566
Transfer to investment properties	(410)	–	–	–	–	–	–	(410)
Write-off	–	–	(5)	(20)	–	–	–	(25)
Exchange realignment	–	–	–	–	–	(8)	–	(8)
At 31 December 2022	**1,042**	**1,091**	**349**	**1,345**	**869**	**3,146**	**–**	**7,842**
CARRYING AMOUNT:								
At 31 December 2022	**4,651**	**–**	**82**	**215**	**368**	**529**	**1,588**	**7,433**
At 31 December 2021	6,771	–	72	309	162	771	1,588	9,673

At 31 December 2022 and 2021, the Group's buildings were pledged to secure general banking facilities granted to the Group (Note 31).

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18. INVESTMENT PROPERTIES

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**25,400**	24,500
Transfer from property, plant and equipment	**10,155**	–
Fair value (loss)/gain	**(5,355)**	900
At 31 December	**30,200**	25,400

The Group's investment properties are situated in Mainland China, which consist of one industrial building and one land use right. The land use right is held under a long term lease and the building is owned by a subsidiary of the Group. The Group's investment properties were revalued on 31 December 2022 based on valuations performed by Roma Appraisals Limited, an independent professionally qualified valuer, at RMB30,200,000 (2021: RMB25,400,000). Each year, the Group's property manager and the chief financial officer decide, after approval from the directors, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results once a year around the year end when the valuation is performed for annual financial reporting.

At 31 December 2022 and 2021, the Group's investment properties were pledged to secure general banking facilities granted to the Group (Note 31).

The Group leases its investment properties consisting of one industrial property in the PRC under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. Rental income recognised by the Group during the year was RMB2,396,000 (2021: RMB1,788,000), details of which are included in note 10 to the consolidated financial statements.

The Group's future undiscounted lease payments under operating leases are receivable as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 1 year	**3,058**	1,990
Between 1 and 2 years	**1,075**	1,990
Between 2 and 3 years	**364**	8
Between 3 and 4 years	**8**	8
Between 4 to 5 years	**8**	8
Over 5 years	**22**	30
	4,535	4,034

19. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2022	2021
	RMB'000	*RMB'000*
At 31 December:		
Right-of-use assets		
— Buildings	**185**	256
— Leasehold land	**167**	244
	352	500

The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:

	2022	2021
— Less than 1 year	**104**	95
— Over 1 year	**100**	182
	204	277
Year ended 31 December:		
Depreciation charge of right-of-use assets		
— Buildings	**(94)**	(60)
— Leasehold land	**(78)**	(78)
	(172)	(138)
Lease interests	**11**	43
Total cash outflow for leases	**(76)**	(93)
Additions to right-of-use assets	**–**	263

At 31 December 2022 and 2021, the Group's leasehold land was pledge to secure general banking facilities granted to the Group (Note 31).

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20. OTHER INTANGIBLE ASSETS

	Patents and licences *RMB'000*
COST:	
At 1 January 2021	3,648
Additions	1
At 31 December 2021, 1 January 2022 and 31 December 2022	3,649
ACCUMULATED AMORTISATION AND IMPAIRMENT:	
At 1 January 2021	1,907
Amortization for the year	715
At 31 December 2021 and 1 January 2022	2,622
Amortization for the year	715
At 31 December 2022	3,337
CARRYING AMOUNT:	
At 31 December 2022	312
At 31 December 2021	1,027

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21. SUBSIDIARIES

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation or registration/ operations	Issued and paid up capital	Percentage of equity interests attributable to the Company		Principal activities
			2022	2021	
Great Water EP Investments Limited*	Hong Kong	HK$60,125,001	**100%**	100%	Investment holding
Lintao Environmental Protection Co., Ltd.@ (廣州霖濤環保技術有限公司)	PRC^	RMB48,000,000	**100%**	100%	Design and construction and sale of equipment for wastewater projects
Hongrun Environmental Protection Co., Ltd.@ (廣州宏潤環保技術有限公司)	PRC^^	RMB48,000,000	**100%**	100%	Design and construction and sale of equipment for wastewater projects
Guangzhou Great Water Environmental Protection Co., Ltd.@ ("Guangzhou Great Water") (廣州中科建禹環保有限公司)	PRC^^	RMB33,333,300+	**100%**	100%	Design and construction and sale of equipment for environmental protection projects
Trung Khoa Kien Vu Environmental Protection (Vietnam) Company Limited	Vietnam	US$180,000	**100%**	100%	Design and construction for wastewater projects

@ The English names of these companies represent the best effort made by management of the Company to directly translate the Chinese names as these companies do not register any official English names.

^ The subsidiary was registered as wholly-foreign-owned enterprises under the PRC law.

^^ These subsidiaries were registered as domestic enterprises under the PRC law.

* The subsidiary was registered as company limited by shares.

+ Guangzhou Great Water was established in the PRC with limited liability on 2 August 2001. The registered capital of Guangzhou Great Water is RMB50,000,000 (2021: RMB50,000,000) of RMB33,333,300 has been paid by the Group as at 31 December 2022.

22. RECEIVABLES UNDER A SERVICE CONCESSION ARRANGEMENT

	2022 *RMB'000*	2021 *RMB'000*
Receivables under a service concession arrangement	**46,479**	53,438
Analyzed as:		
Current assets	**7,041**	6,959
Non-current assets	**39,438**	46,479
	46,479	53,438

Receivables under a service concession arrangement was due from the Grantor in respect of the Group's sludge treatment operations.

The expected credit loss rate for the Group's receivables under a service concession arrangement is minimal. No impairment loss was recognized by the Group as at 31 December 2022 in respect of this asset (2021: Nil).

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

	2022 *RMB'000*	2021 *RMB'000*
Equity securities, at fair value		
Unlisted equity securities		
— Guangzhou Environmental Technology Company Limited* (廣州環科環保有限公司)	**3,400**	3,400

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

As at 31 December 2022 and 2021, the Group held 5% equity interest of Guangzhou Environmental Technology Company Limited* (廣州環科環保有限公司).

* The English names of these companies represent the best effort made by management of the Company to directly translate the Chinese names as these companies do not register any official English names.

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24. INVENTORIES

	2022 *RMB'000*	2021 *RMB'000*
Finished goods	**12,567**	4,357

25. TRADE AND BILLS RECEIVABLES

	2022 *RMB'000*	2021 *RMB'000*
Trade receivables	**149,689**	174,328
Provision for loss allowance	**(22,262)**	(62,510)
	127,427	111,818

Trade receivables represented the outstanding contracted value for the sale of goods, construction contracts and rendering of services receivable from the customers at each of the reporting dates. The Group's trading terms with its customers are mainly on credit. Tax invoices are issued to the customers based on agreed schedules and the Group's trade receivables are subject to various credit terms. The credit period granted to the customers is 30 days from the date of issuing tax invoice, extending up to the date of final acceptance of the whole projects for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimize the credit risk. Overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

The aging analysis of trade and bills receivables, based on the invoice dates, and net of allowance, is as follows:

	2022 *RMB'000*	2021 *RMB'000*
0–30 days	**42,210**	15,031
31–90 days	**3,188**	28,081
91–365 days	**11,360**	18,314
1–2 years	**26,765**	4,734
2–3 years	**2,403**	46
Over 3 years	**41,501**	45,612
	127,427	111,818

25. TRADE AND BILLS RECEIVABLES *(continued)*

Reconciliation of the loss allowance for trade receivables:

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**62,510**	61,650
(Reversal of impairment)/impairment loss	**(192)**	872
Amount written-off as uncollectible	**(40,055)**	(30)
Exchange realignment	**(1)**	18
At 31 December	**22,262**	62,510

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the collectability rate for groupings of various customer segments with similar credit risk patterns (i.e. by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

	Category A	**Category B**	**Category C**	**Category D**	**Total**
At 31 December 2022					
Weighted average expected loss rate	**0%**	**4%**	**22%**	**85%**	
Receivable amount (RMB$'000)	**660**	**73,640**	**71,789**	**3,600**	**149,689**
Loss allowance (RMB$'000)	**(3)^**	**(3,306)^***	**(15,879)^***	**(3,074)^**	**(22,262)**
At 31 December 2021					
Weighted average expected loss rate	1%	27%	22%	99%	
Receivable amount (RMB$'000)	1,690	73,658	72,532	26,448	174,328
Loss allowance (RMB$'000)	(23)^	(19,889)^*	(16,311)^*	(26,287)^	(62,510)

^ A specific trade receivable with gross carrying amount of RMB19,000,000 (2021: RMB59,732,000) was assessed individually which were considered in default due to indicators and an impairment of RMB18,362,000 (2021: RMB58,156,000) was made.

* A specific trade receivable with gross carrying amount of RMB63,300,000 (2021: RMB53,118,000) was assessed individually as the Group considered the default risk was minimal and the outstanding contractual amount was likely to be recovered in full.

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26. CONTRACT ASSETS AND LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2022 *RMB'000*	As at 31 December 2021 *RMB'000*	As at 1 January 2021 *RMB'000*
Contract assets — construction	**31,336**	76,906	71,861
Contract assets — service concession arrangement	**–**	–	1,009
Impairment of contract assets	**(4,234)**	(23,822)	(22,259)
Total contract assets	**27,102**	53,084	50,611
Contract liabilities — construction	**11,740**	15,070	9,635
Contract liabilities — sale of equipment	**3,257**	50,828	16,305
Contract liabilities — others	**–**	114	–
Total contract liabilities *(Note 30)*	**14,997**	66,012	25,940
Contract receivables (include in trade receivables)	**127,427**	111,818	95,614
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognized as revenue in:			
— 2022	**–**	301,411	
— 2023	**60,561**	–	
	60,561	301,411	

Year ended 31 December	**2022** *RMB'000*	2021 *RMB'000*
Revenue recognized in the year that was included in contract liabilities at beginning of year	**50,942**	20,098

26. CONTRACT ASSETS AND LIABILITIES *(continued)*

Significant changes in contract assets (before impairment) and contract liabilities during the year:

	2022 Contract assets ***RMB'000***	**2022 Contract liabilities** ***RMB'000***	2021 Contract assets *RMB'000*	2021 Contract liabilities *RMB'000*
Increase due to operations in the year	**204,331**	**1,403**	91,006	61,189
Transfer of contract assets to receivables	**(249,901)**	**–**	(88,533)	–
Transfer of contract liabilities to revenue	**–**	**(52,418)**	–	(21,117)

Contract assets are initially recognised for revenue earned from the sale of equipment and the provision of construction services as the receipt of consideration is conditional on successful completion of delivery of equipment and construction, respectively. Included in contract assets for construction services are retention receivables. Upon completion of delivery of equipment or construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade and bills receivables.

Contract assets are initially recognized for revenue earned from the provision of construction services for the infrastructures during the period of construction under the service concession arrangement. Pursuant to the service concession agreement, the Group receives no payment form the Grantors during the construction period and receives service fees when relevant provision of sludge treatment is rendered. The receivables under the service concession arrangement (including the contract assets therein) are not yet due for payment and will be settled by service fees to be received during the operating periods of the service concession arrangement. Amounts billed will then be transferred to trade receivables.

During the year ended 31 December 2022, RMB4,234,000 (2021: RMB23,822,000) was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 25 to the consolidated financial statements.

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

	2022 ***RMB'000***	2021 *RMB'000*
Within one year	**27,102**	53,084

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

	2022 ***RMB'000***	2021 *RMB'000*
At 1 January	**23,822**	22,259
(Reversal of impairment)/impairment losses	**(326)**	1,563
Amount written off as uncollectible	**(19,262)**	–
At 31 December	**4,234**	23,822

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26. CONTRACT ASSETS AND LIABILITIES *(continued)*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on the collectability rate of trade receivables for groupings of various customer segments with similar credit risk patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

	Category A	Category B	Category C	Category D	Total
At 31 December 2022					
Weighted average expected loss rate	**0%**	**5%**	**16%**	**66%**	
Gross carrying amount (RMB$'000)	**–**	**24,038**	**3,326**	**3,972**	**31,336**
Loss allowance (RMB$'000)	**–**	**(1,088)**	**(527)**	**(2,619)^**	**(4,234)**
At 31 December 2021					
Weighted average expected loss rate	0%	4%	6%	96%	
Gross carrying amount (RMB$'000)	–	51,116	3,384	22,352	76,852
Loss allowance (RMB$'000)	–	(2,197)	(202)	(21,423)^	(23,822)

^ A specific contract assets with gross carrying amount of RMB2,134,000 (2021: RMB21,395,000) was assessed individually which were considered in default due to indicators and an impairment of RMB2,134,000 (2021: RMB21,395,000) were made.

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

27. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 *RMB'000*	2021 *RMB'000*
Prepayments	**36,608**	48,444
Deposits and other receivables	**5,359**	2,908
	41,967	51,352
Impairment	**(24,087)**	(24,646)
	17,880	26,706
Analyzed as:		
Current assets	**17,838**	26,700
Non-current assets	**42**	6
	17,880	26,706

The movements in the loss allowance for prepayments, other receivables and other assets are as follows:

	2022 *RMB'000*	2021 *RMB'000*
At 1 January	**24,646**	23,600
Impairment losses	**3,893**	1,046
Amount written off as uncollectible	**(4,452)**	–
At 31 December	**24,087**	24,646

Fifteen (2021: nine) specific prepayments with gross carrying amount of RMB24,087,000 (2021: RMB24,646,000) was assessed individually which were considered in default due to indicators and an impairment of RMB24,087,000 (2021: RMB24,646,000) was made.

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28. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

	2022 *RMB'000*	2021 *RMB'000*
Cash and bank balances	**58,148**	55,149
Less: Pledged deposits	**(2,888)**	(9,140)
Cash and cash equivalents	**55,260**	46,009
Denominated in:		
RMB	**42,224**	35,133
HK$	**2,081**	2,745
US$	**12,493**	8,975
VND	**1,350**	8,296
	58,148	55,149

The RMB is not freely convertible into other currencies, however, under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

The VND is also not freely convertible into other currencies, however, under the State Bank of Vietnam, the Group is permitted to exchange VND for other currencies through banks authorized to conduct foreign exchange business.

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

29. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2022 *RMB'000*	2021 *RMB'000*
0 to 30 days	**57,447**	12,772
31 to 90 days	**5,613**	14,213
91 days to 365 days	**26,319**	11,197
Over 1 year	**92,273**	89,470
	181,652	127,652

Trade payables are unsecured, non-interest-bearing and are normally settled in 30 to 90 days.

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30. OTHER PAYABLES AND ACCRUALS

	2022 *RMB'000*	2021 *RMB'000*
Contract liabilities *(Note 26)*	**14,997**	66,012
Other payables	**30,617**	31,073
	45,614	97,085

Other payables are non-interest-bearing and repayable on demand.

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2022 *RMB'000*	2021 *RMB'000*
Bank loans — secured	**25,000**	38,497
Other borrowings		
— Lease liabilities *(Note (c))*	**195**	260
	25,195	38,757

The borrowings are repayable as follows:

	2022			2021		
	Bank loans *RMB'000*	**Other borrowings** *RMB'000*	**Total** *RMB'000*	Bank loans *RMB'000*	Other borrowings *RMB'000*	Total *RMB'000*
On demand or within one year	**25,000**	**97**	**25,097**	38,497	85	38,582
Beyond one year	**–**	**98**	**98**	–	175	175
	25,000	**195**	**25,195**	38,497	260	38,757
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(25,000)**	**(97)**	**(25,097)**	(38,497)	(85)	(38,582)
Amount due for settlement after 12 months	**–**	**98**	**98**	–	175	175

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31. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

The effective interest rates at 31 December were as follows:

	2022		2021	
	Non-current	**Current**	Non-current	Current
Bank loans	**N/A**	**5.48%-6.74%**	N/A	5%-6.7%
Other Borrowings	**4.75%**	**4.75%**	4.75%	4.75%

Notes:

(a) The Group's facilities amounting to RMB25,000,000 (2021: RMB75,000,000), of which RMB25,000,000 (2021: RMB38,497,000) had been utilised as at the end of the reporting period, are secured by:

(i) mortgages over the Groups investment properties situated in Mainland China, which had an aggregate carrying value at the end of the reporting period of RMB30,200,000 (2021: RMB25,400,000) (Note 18);

(ii) mortgage over the Group's buildings, which had a net carrying value at the end of the reporting period of approximately RMB4,651,000 (2021: RMB6,771,000) (Note 17); and

(iii) mortgages over the Groups right-of-use assets, which had an aggregate carrying value at the end of the reporting period of RMB167,000 (2021: RMB244,000) (Note 19).

(b) The bank loans are denominated in RMB.

(c)

	Lease payments		Present value of lease payments	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**104**	95	**97**	85
Beyond one year	**100**	182	**98**	175
	204	277		
Less: Future finance charges	**(9)**	(17)		
Present value of lease liabilities	**195**	260	**195**	260
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(97)**	(85)
Amount due for settlement after 12 months			**98**	175

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32. DEFERRED TAX

The movements in deferred tax assets are as follows:

	Impairment losses on financial and contract assets *RMB'000*	Provision for accruals *RMB'000*	Total *RMB'000*
At 1 January 2021	1,691	302	1,993
Charge to profit or loss for the year	–	(265)	(265)
At 31 December 2021 and 1 January 2022	1,691	37	1,728
Charge to profit or loss for the year	–	(26)	(26)
At 31 December 2022	**1,691**	**11**	**1,702**

The movements in deferred tax liabilities are as follows:

	Fair value adjustments arising from transferral from property, plant and equipment to investment properties *RMB'000*	Fair value adjustments arising from investment properties *RMB'000*	Service concession arrangement *RMB'000*	Total *RMB'000*
At 1 January 2021	–	5,658	1,018	6,676
Charge/(credit) to profit or loss for the year	–	225	(389)	(164)
At 31 December 2021 and 1 January 2022	–	5,883	629	6,512
(Credit)/charge to profit or loss for the year	–	(1,339)	229	(1,110)
Charge to equity for the year	2,040	–	–	2,040
At 31 December 2022	**2,040**	**4,544**	**858**	**7,442**

32. DEFERRED TAX *(continued)*

The following is the analysis of the deferred tax balances (after offset) for statement of financial position purposes:

	2022	2021
	RMB'000	*RMB'000*
Deferred tax assets	**(1,702)**	(1,728)
Deferred tax liabilities	**7,442**	6,512
	5,740	4,784

The Group has tax losses arising in Mainland China of RMB46,282,000 (2021: RMB44,258,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilized.

The Group has tax losses arising in Hong Kong of RMB1,462,000 (2021: RMB1,296,000) that are available offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilized.

The Group has tax losses arising in Vietnam of RMB2,202,000 (2021: RMB1,958,000) that are available offsetting against future taxable profits of the companies in which the losses arose and will expire in five years for offsetting against future taxable profits. Deferred tax assets have not been recognized in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilized.

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

	2022	2021
	RMB'000	*RMB'000*
Tax losses	**6,942**	6,638
Deductible temporary differences	**15,339**	14,847
	22,281	21,485

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32. DEFERRED TAX *(continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2022, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of a subsidiary of the Group established in Mainland China. In the opinion of the directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with the investment in the subsidiary in Mainland China for which no deferred tax liabilities have not been recognized as at 31 December 2022 (2021: Nil).

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

33. SHARE CAPITAL

	2022		2021	
		Equivalent to		Equivalent to
	HK$'000	***RMB'000***	*HK$'000*	*RMB'000*
Authorized:				
300,000,000 ordinary shares of HK$0.01 each	**3,000**	**2,397**	3,000	2,397
Issued and fully paid:				
300,000,000 ordinary shares of HK$0.01 each	**3,000**	**2,397**	3,000	2,397

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34. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Company

The amounts of the Company's reserves and the movements therein for the year ended 31 December 2022 are as follows:

	Share premium	Exchange fluctuation reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021	103,125	4,885	(24,121)	83,889
Loss for the year	–	–	(5,338)	(5,338)
Exchange differences on translation of foreign operations	–	(2,692)	–	(2,692)
At 31 December 2021 and 1 January 2022	103,125	2,193	(29,459)	75,859
Loss for the year	–	–	(13,791)	(13,791)
Exchange differences on translation of foreign operations	–	6,497	–	6,497
At 31 December 2022	**103,125**	**8,690**	**(43,250)**	**68,565**

(c) Nature and purpose of reserves

(i) Share premium account

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

(ii) Exchange fluctuation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the consolidated financial statements.

(iii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4 to the consolidated financial statements.

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35. SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and/or rewards to eligible persons thereunder for their contributions to the Group. Eligible persons of the Scheme include current employees, executive or office of the Group or directors (including non-executive and independent non-executive directors).

Subject to the conditions of the Scheme, the Scheme shall be valid and effective for a period of 10 years from 17 June 2022 (the "**Adoption Date**"), after which period no further share options may be offered or granted but the provisions of the Scheme shall remain in force to the extent necessary to give effect to the exercise of any share options which have been granted and remain outstanding.

The maximum number of shares which may be issued pursuant to the Scheme will be 18,000,000 Shares, representing 6% of the total number of shares in issue as at the Adoption Date. Upon adoption of the Scheme or any other share option scheme by the Company, the maximum number of shares which may be issued upon exercise of share options to be granted under the Scheme, the new and other existing share option schemes of the Company shall not exceed 10% of the total number of issued shares. The maximum number of 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 schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time.

The eligibility of any of the eligible persons shall be determined by the Directors from time to time on the basis of the Directors' opinion as to such eligible persons' contribution to the development and growth of the Group. The Board will assess the eligibility of the eligible persons based on various factors such as performance conditions, targets to be achieved and potential and/or actual contribution to the business affairs of and benefits to the Group. The inclusion of the Directors and employees as eligible persons is in line with the objectives of the Scheme, which include attracting and retaining quality personnel and motiving them to contribute to the continued growth of the Group.

An offer shall be made to an eligible person in writing (and unless so made shall be invalid) in such form as the Directors may from time to time determine, either generally or on a case-by-case basis, specifying the name, address and position of the eligible person, the number of shares to be issued upon the exercise of the share options in respect of which the offer is made and the exercise price for such shares, the exercisable period of share options, the last date by which the offer must be accepted, the procedure for acceptance, the vesting conditions, the vesting period, the applicable vesting date and other terms and conditions of the offer as may be imposed by the Directors, and further requiring the eligible person to undertake to hold the share option on the terms on which it is to be granted and to be bound by the provisions of the Scheme and shall remain open for acceptance by the eligible person for a period of up to 10 days from the grant date.

An offer shall have been accepted by an eligible person in respect of the shares which are offered to such eligible person when the duplicate letter comprising acceptance of the offer duly signed by the eligible person together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company within such time as may be specified in the offer (which shall not be later than 10 days from the grant date). Such remittance shall in no circumstances be refundable.

Upon an offer being accepted by an eligible person, the share options to which the offer relates will be deemed to have been granted by the Company to such eligible person on the grant date. To the extent that the offer is not accepted within the time specified in the offer, it will be deemed to have been irrevocably declined.

35. SHARE OPTION SCHEME *(continued)*

The exercise price of the share options granted under the Scheme shall be the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on grant date, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the grant date.

Subject to fulfilment of the vesting conditions to be imposed by the Board at its sole and absolute discretion, the share options granted to a grantee will be vested in the grantee at the following ratios on the date of issuance of the audited financial report of the Group for the relevant financial year:

(a) the first financial year immediately following the year of the grant date, 40% of the total number of share options granted to the grantee;

(b) the second financial year immediately following the year of the grant date, 30% of the total number of share options granted to the grantee; and

(c) the third financial year immediately following the year of the Grant Date, 30% of the total number of share options granted to the grantee.

If the vesting conditions are not fulfilled for a relevant financial year, the corresponding portion of share options granted will lapse.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price *HK$ per share*	**Number of options**
At 1 January 2022	–	–
Granted during the year	1.19	18,000,000
At 31 December 2022	1.19	18,000,000

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35. SHARE OPTION SCHEME *(continued)*

The exercise price and exercise period of the share options outstanding as at the end of the reporting period are as follows:

Number of options	**Exercise price*** *HK$ per share*	**Exercise period**
7,200,000	1.19	Date of issuance of the audited financial report for the year ended 31 December 2023 to 28 June 2032
5,400,000	1.19	Date of issuance of the audited financial report for the year ended 31 December 2024 to 28 June 2032
5,400,000	1.19	Date of issuance of the audited financial report for the year ended 31 December 2025 to 28 June 2032
18,000,000		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted on 29 June 2022 was approximately of HK$9,154,000, of which the Group recognised a share option expense of approximately HK$1,914,000 (equivalent to RMB1,693,000) during the year ended 31 December 2022.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2022
Dividend yield (%)	**0%**
Expected volatility (%)	**44.186%**
Risk-free interest rate (%)	**3.36%**
Weighted average share price (HK$ per share)	**1.19**

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 18,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 18,000,000 additional ordinary shares of the Company and additional share capital of HK$21,420,000 (before issue expense).

At the date of approval of these consolidated financial statements, the Company had 18,000,000 share options outstanding under the Scheme, which represented approximately 6% of the Company's shares in issue as at that date.

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Bank and other loans	Lease liabilities	Total liabilities from financing activities
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2021	43,318	102	43,420
Change in cash flows	(7,369)	(93)	(7,462)
Non-cash changes			
— New leases	–	263	263
— Foreign exchange movement	–	(2)	(2)
— Interest expense	2,548	43	2,591
— Early termination of lease	–	(53)	(53)
At 31 December 2021 and 1 January 2022	38,497	260	38,757
Change in cash flows	(15,716)	(76)	(15,792)
Non-cash changes			
— Interest expense	2,219	11	2,230
At 31 December 2022	**25,000**	**195**	**25,195**

37. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2021: Nil).

38. COMMITMENTS

As at 31 December 2022, the Group contracted commitments of approximately RMB4,175,000 (2021: RMB158,149,000) on EPC and construction projects. It mainly represents the procurement of plant and machinery and construction materials.

39. RELATED PARTY TRANSACTIONS

(a) The Group's balances with directors are included in other payables (Note 30 to the consolidated financial statements). All the balances are unsecured, interest-free and repayment on demand. Details are as follows:

	2022	2021
	RMB'000	*RMB'000*
Mr. Xie Yang	**340**	60
Mr. He Xuan Xi	**109**	109
Ms. Gong Lan Lan	**53**	74
Mr. Tse Chi Wai	**53**	74
Mr. Ha Cheng Yong	**53**	74
Mr. Bai Shuang	**53**	74
	661	465

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

	2022	2021
	RMB'000	*RMB'000*
Short term employee benefits	**4,704**	4,363

Further details of directors' and the chief executive's emoluments are disclosed in note 13 to the consolidated financial statements.

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40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2022	2021
	RMB'000	*RMB'000*
NON-CURRENT ASSET		
Investments in subsidiaries	**44,874**	48,727
	44,874	48,727
CURRENT ASSETS		
Prepayments, other receivables and other assets	**27,692**	31,082
	27,692	31,082
CURRENT LIABILITIES		
Other payables and accruals	**1,604**	1,553
	1,604	1,553
NET CURRENT ASSETS	**26,088**	29,529
TOTAL ASSETS LESS CURRENT LIABILITIES	**70,962**	78,256
NET ASSETS	**70,962**	78,256
EQUITY		
Share capital	**2,397**	2,397
Reserves	**68,565**	75,859
TOTAL EQUITY	**70,962**	78,256

41. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 22 March 2023.

FIVE-YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2018	2019	2020	2021	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
CONTINUING OPERATIONS					
Revenue	178,450	121,601	75,624	118,377	**256,749**
Profit/(loss) before taxation	12,452	(28,771)	(104,853)	(17,005)	**(12,061)**
Income tax (expense)/credit	(4,396)	4,979	(1,793)	(37)	**514**
Profit/(loss) for the year	8,056	(23,792)	(106,646)	(17,042)	**(11,547)**
Attributable to:					
Owners of the Company	8,362	(24,157)	(106,646)	(17,042)	**(11,547)**
Non-controlling interests	(306)	365	–	–	**–**
	8,056	(23,792)	(106,646)	(17,042)	**(11,547)**

	At 31 December				
	2018	2019	2020	2021	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
ASSETS AND LIABILITIES					
Total assets	486,092	432,027	319,439	344,552	**331,300**
Total liabilities	(264,264)	(233,101)	(227,544)	(269,729)	**(260,247)**
	221,828	198,926	91,895	74,823	**71,053**
Attributable to owners of the Company	222,199	198,932	91,901	74,823	**71,053**
Non-controlling interests	(371)	(6)	(6)	–	**–**
	221,828	198,926	91,895	74,823	**71,053**