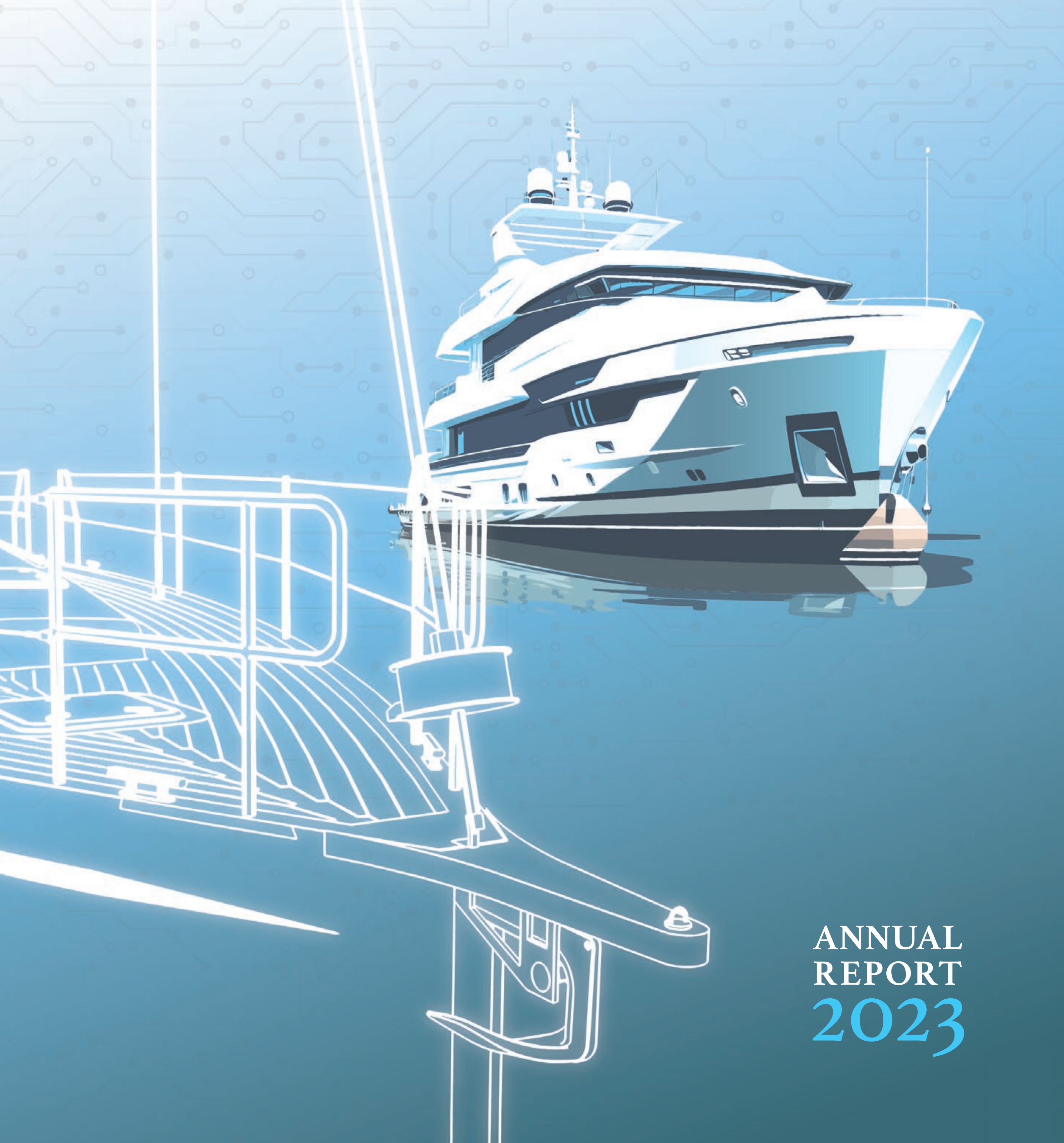
SKYBLUE 11
天璽曜11有限公司

Sky Blue 11 Company Limited

(formerly known as Balk 1798 Group Limited 巴克1798集團有限公司)

(Incorporated in Bermuda with limited liability)

(Stock code: 1010)



ANNUAL REPORT 2023

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Li Weina
Mr. Zhang Fumin
Mr. Wang Yi *Note 1*
Dr. Zhang Yu *Note 2*

Independent Non-Executive Directors

Ms. Ching Ching
Dr. Song Donglin
Dr. Zhang Shengdong

BOARD COMMITTEES

Audit Committee

Ms. Ching Ching *(Chairman)*
Dr. Song Donglin
Dr. Zhang Shengdong

Nomination Committee

Dr. Song Donglin *(Chairman)*
Ms. Ching Ching
Dr. Zhang Shengdong

Remuneration Committee

Dr. Song Donglin *(Chairman)*
Ms. Ching Ching
Dr. Zhang Shengdong

COMPANY SECRETARY

Mr. Lam Wai Kei

STOCK CODE

1010

WEBSITE

www.skyblue11.com

AUDITOR

Prism Hong Kong and Shanghai Limited
Certified Public Accountants

LEGAL ADVISOR

Robertsons Solicitors

PRINCIPAL BANKERS

Bank of Communications (Hong Kong) Limited
Dah Sing Bank, Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 6504, 65/F., Central Plaza,
18 Harbour Road, Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

4th Floor North Cedar House
41 Cedar Avenue
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
17/F., Far East Finance Centre,
16 Harcourt Road, Hong Kong

Notes:

1. Resigned on 6 April 2023
2. Appointed on 6 April 2023

EXECUTIVE DIRECTORS

Ms. Li Weina, aged 39, was appointed as the executive director of the Company on 14 August 2020. She joined the Group from July 2019, and is taking the role of a vice president in human resource and administration. She obtained a bachelor degree in Marketing in Huaqiao University*（華僑大學）in 2007. She was employed as an administration and human resource manager and secretary to chief officer in Zhongxin Fengyue (Dalian) Limited*（中信豐悅（大連）有限公司）from 2010 to 2014, and a manager of the board office and secretary to chief officer in Zhongying Holding Group Limited*（中盈控股集團有限公司）from 2014 to 2019. She has extensive experience in human resource and administration management. She is the director of 21 subsidiaries of the Company.

Mr. Zhang Fumin, aged 52, was appointed as the executive director of the Company on 16 April 2021. He obtained a master's degree in business administration from Dalian Maritime University. He served as (i) director of the transaction centre at Dalian Branch of Bank of China from December 1994 to November 2002; (ii) president of Dalian Software Park sub-branch of Bank of China from November 2002 to June 2006; (iii) director of consumer loan department at Dalian High-tech Park sub-branch of Bank of China from June 2006 to July 2013; (iv) general manager of Dalian Zhongying Shipbuilding Co., Ltd.（大連中盈船業製造有限公司）from 2015 to March 2016; (v) general manager of Dalian Wanjin Investment Co., Ltd.*（大連萬錦投資有限公司）from March 2016 to November 2018; (vi) general manager of Liaoning Jinlong Super Yacht Manufacturing Co., Ltd.*（遼寧錦龍超級遊艇製造有限公司）from December 2018 to January 2020; (vii) employee of Zhongying Int'l Holding Group Limited ("**Zhongying Int'l**"), a substantial shareholder of the Company, from November 2020 to January 2021; and (viii) general manager of Dalian Zhongying Lianhai Yacht Management Limited（大連中盈聯海遊艇管理有限公司）from January 2021 to present. He has extensive experience in financial management, risk control and internal control.

Dr. Zhang Yu, aged 38, was appointed as the executive director of the Company on 6 April 2023 and is the director of 2 subsidiaries of the Company. He graduated from University of York, United Kingdom. Dr. Zhang started working as a research fellow at York Management School of University of York, United Kingdom in 2010. Since 2011, Dr. Zhang has been a global advisor of China Railway Group Limited in the international market. Also, Dr. Zhang is currently an advisor and business development director of Compact GTL Limited, founder and co-director of Innovation Centre for Commercialization of the University of Surrey, and representative of United Kingdom at Tianjin Administration of Foreign Experts Affairs. Dr. Zhang has extensive experience and industry background in trade finance and commodities trading. Dr. Zhang built up his business connections with a number of well-known worldwide corporations across multiple industries including but not limited to banking, trading, mining, smelting and financial services. In particular, Dr. Zhang is very experienced in both physical commodity trading and futures markets. Dr. Zhang also gave public speeches in relation to global finance and development since 2016, he has been invited to speak at Chatham House of the United Kingdom in 2016 and 2018.

* For identification purposes only

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ching Ching, aged 45, was appointed as independent non-executive director of the Company on 23 June 2020. She obtained a Bachelor of Science in Business Administration (Finance and Management Information System) in University of Arizona (USA) in 2001 and an Executive Master of Business Administration Certificate in Fudan University in 2014. She is a Fellow member of both the Institute of Public Accountants Australia, Certified Management Accountant Australia, Institute of Financial Accountants (UK), the Association of International Accountants and the Royal Statistical Society. She is also a Professional Member of CACFO（中國總會計師協會）and the British Computer Society. She is currently the Financial Controller of First America Title Insurance Company, a company licensed by the Insurance Authority in Hong Kong. She has around 20 years of experiences in corporate finance, merge and acquisition, and business valuation.

Dr. Song Donglin, aged 67, was appointed as the independent non-executive director of the Company on 15 April 2021. He (i) obtained an undergraduate degree and a master's degree from the Jilin University in 1982 and 1985, respectively; (ii) served as a teacher of the Economics Department of Jilin University from 1985 to 1993, and was a visiting scholar at Rutgers University in the United States from 1988 to 1990; (iii) obtained a doctoral degree from Jilin University in 1994; (iv) served as the deputy dean of the Business School of Jilin University from 1993 to 2000; (v) served as the deputy dean and dean of the School of Economics of Jilin University from 2000 to 2005; (vi) served as the vice president of Changchun Taxation College from 2005 to 2006; (vii) served as the president of Changchun Taxation College from 2006 to 2010; (viii) served as the president of Jilin University of Finance and Economics from 2010 to 2018; (ix) has been serving as professor of Jilian University since 2018; (x) has been serving as an independent director of Jilin Bank since March 2020; and (xi) has been serving as the Director of the China State-Owned Economy Research Center at Jilin University since 2022. Dr. Song has extensive experience in the fields of economics and business administration.

Dr. Zhang Shengdong, aged 59, was appointed as the independent non-executive director of the Company on 4 March 2019. He graduated in Peking University（北京大學）with doctoral degree in Sciences in 2002. He is currently a professor of the School of Electronic and Computer Engineering of Peking University（北京大學－信息工程學院）.

Dr. Zhang was a director of Shenzhen Topray Solar Co., Ltd（深圳拓日新能源科技股份有限公司）from February 2010 to May 2016, which is listed on the Shenzhen Stock Exchange in the People's Republic of China (the "**PRC**"). He was a director of Shenzhen Refond Optoelectronics Co., Ltd（深圳市瑞豐光電子股份有限公司）from December 2019 to January 2023, which is listed on the Shenzhen Stock Exchange in the PRC.

CHIEF EXECUTIVE OFFICER

Mr. Lam Fuk Tak, aged 48, was appointed as the Chief Executive Officer of the Company on 11 November 2021. Mr. Lam is a seasoned entrepreneur in corporate management, holding a number of leadership roles spanning across different lines of business and geographies over the past decade. Mr. Lam is experienced in development, operation management, and startup investment in media and entertainment, corporate finance, and education businesses.

Mr. Lam is a fellow member of both the CPA Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Lam graduated from the University of Wollongong Australia with a Bachelor in Commerce and thereafter, spent over 10 years working in international accounting firms. After leaving PricewaterhouseCoopers in 2009, Mr. Lam joined ChinaVision Media Group Limited ("**ChinaVision**"), subsequently renamed as Alibaba Pictures Group Limited (stock code: 01060). During his five-year tenure as the chief financial officer of ChinaVision, Mr. Lam played pivotal roles in a number of significant transactions including but not limited to noteworthy mergers and acquisitions as well as various fundraising events. Mr. Lam then acted as a senior consultant of Huanxi Media Group Limited (stock code: 01003) from 2015 to 2016, providing strategic advice with respect to mergers and acquisitions, business development, and different kinds of corporate transactions.

COMPANY SECRETARY

Mr. Lam Wai Kei, aged 50, has over 25 years of experience in accounting, corporate finance, auditing and company secretarial practises. He is a practising and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lam graduated from the Hong Kong University of Science and Technology with a Bachelor of Business Administration degree in accounting in November 1996 and obtained a Master of Science degree in financial engineering from City University of Hong Kong in November 2004. Mr. Lam is currently the company secretary of GR Life Style Company Limited (stock code: 00108), China Sinostar Group Company Limited (stock code:00485) and Bojun Education Company Limited (stock code: 01758), the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, the assets, liabilities and total equity of the Group for the last five financial years, as extracted from the audited financial statements and this Annual Report of the Company for the year ended 31 December, is set out below:

RESULTS

	2023 HK$'000	2022 HK$'000	2021 HK$'000	2020 HK$'000	2019 HK$'000
Revenue	**113,970**	181,076	105,619	92,647	74,339
(Loss)/profit before tax	**(44,254)**	3,406	(52,550)	(4,820)	(22,353)
Income tax expense	**(2,193)**	(5,642)	(290)	(733)	(361)
Loss for the year	**(46,447)**	(2,236)	(52,840)	(5,553)	(22,714)
Attributable to owners of the Company	**(46,447)**	(2,236)	(52,840)	(5,495)	(21,065)

ASSETS AND LIABILITIES

	31 December 2023 HK$'000	31 December 2022 HK$'000	31 December 2021 HK$'000	31 December 2020 HK$'000	31 December 2019 HK$'000
Non-current assets	**41,473**	38,795	43,154	79,293	49,724
Net current (liabilities)/assets	**(42,462)**	9,251	19,396	28,060	51,824
Total assets less current liabilities	**(989)**	48,046	62,550	107,353	101,548
Non-current liabilities	**(1,990)**	(881)	–	(67)	(5,637)
Net (liabilities)/assets	**(2,979)**	47,165	62,550	107,286	95,911
Shareholders' equity					
Share capital	**37,025**	37,025	37,025	37,025	33,659
Reserves	**(40,004)**	10,140	25,525	70,261	62,833
	(2,979)	47,165	62,550	107,286	96,492
Non-controlling interest	**–**	–	–	–	(581)
	(2,979)	47,165	62,550	107,286	95,911

On behalf of the board of directors (the "**Directors**") (the "**Board**") of Sky Blue 11 Company Limited (formerly known as Balk 1798 Group Limited, the "**Company**"), I hereby report on the results of the Company and its subsidiaries (the "**Group**") for the year 2023.

BUSINESS REVIEW AND OUTLOOK

Looking back at 2023, it became evident that the recovery period from the COVID-19 pandemic was unexpectedly prolonged, resulting in an economic recession in major economies. The downward trend in the economy throughout the entire year of 2023 was extremely difficult to reserve or survive for many industries. While facing uncertainties on the economic outlook, the customers' purchasing power as well as the consumption sentiment experienced a continuous decline, particularly in the consumption products and luxury goods. As a result, the financial performance, especially on the business segments of the executive jet management and yacht businesses of the Group, was inevitably affected.

In light of the challenges faced, the Group adhered to its prudent approach by closely monitoring its business portfolio and implementing various strategies and decisive measures to reform during the year ended 31 December 2023, aiming to mitigate the negative impacts of the challenges and enhance the shareholders' value. Objectives of these measures were i) to maintain the core business that can create reliable returns with competitive advantages; ii) to exit from businesses that have not met expectations or might require further input from the Group; and iii) to continuously seek opportunities that enhance the Group's revenue bases and profit-making abilities.

In 2023, the principal businesses of the Group were i) the design and sales of integrated circuits and semi-conductors parts, ii) executive jet management, and iii) manufacturing and sales of yachts and other yachts related businesses. Throughout the year ended 31 December 2023, alongside with the reforms implemented by the management of the Group (the "**Management**"), the Group has endeavored to maintain its position by reducing costs and enhancing efficiencies across all business segments to generate stable cash flow of the Group and foster sustainable business development in the long term.

For the year ended 31 December 2023, the Group recorded a revenue of approximately HK$114.0 million, representing a decrease of 37.1% while compared to the revenue of approximately HK$181.1 million for the year ended 31 December 2022. A loss for the year of approximately HK$46.4 million was recorded for the year ended 31 December 2023, which was significantly higher when compared to the loss for the year of approximately HK$2.2 million for the year ended 31 December 2022. The loss was mainly attributable to increase in certain non-cash expenses, including provision for impairment of inventories and impairment of financial assets.

The selling and distribution costs was reduced from approximately HK$27.7 million for the year ended 31 December 2022 to approximately HK$7.1 million for the year ended 31 December 2023 and the finance costs was reduced from approximately HK$4.8 million for the year ended 31 December 2022 to approximately HK$0.4 million for the year ended 31 December 2023. The general and administrative expenses was increased from approximately HK$47.6 million for the year ended 31 December 2022 to approximately HK$61.5 million for the year ended 31 December 2023 which was due to the impairment of financial assets, the increasing rental expenses and overhead expenses.

While the global economic activities gradually return to pre COVID-19 pandemic level, the effects of COVID-19 pandemic continue to pose a fundamental and prolonged challenge to our economies, societies and business environments. However, by virtue of the foresaid on-going reform, it allows the Group to revisit the business strategies and relocates its resources on its core businesses as well as to explore business opportunities in different segment which will benefit to the Group in the long run. The Group is confident in the future prospect and committed to the continuous growth to the Group.

According to the Sales Market Report by IYC Yachts, the yacht sales market in 2023 continued a downward trend which was began in quarter 3 of 2022. The total sales of yachts in the market in 2023 decreased by 29% as compared to 2022. Despite the decline in the sale of yachts in 2023, the selling prices of yachts remained stable and even experienced an increase by 39% for used units and 11% for new yachts. The increase was mainly driven by the ongoing demands for large yachts that required higher construction prices and limited available construction slots for new builds in shipyards.

Having considered the potential market growth in the yacht industry, the Group is ambitious and intends to allocate more resources to expand its business development in the manufacturing and sales of yachts and other yachts related businesses. On 7 November 2023, the Group entered into a non-legally binding memorandum of understanding (the "**MOU**") with Balk Beheer B.V., a company incorporated in the Netherlands. Pursuant to the MOU, the Company intends to acquire, and Balk Beheer B.V. intends to dispose of, the entire issued share capital of its subsidiary, namely B&W Beleggingen B.V. which holds the lease rights for a building plot in a new harbour known as "Maritieme Servicehaven Noordeliike Flevoland" ("**MSNF**"). MSNF is a new port which has gained support from the local government. It is a port that will focus on international maritime services.

The Group intends to invest in the development of MSNF including the construction of a new shipyard at MSNF, through the proposed acquisition of B&W Beleggingen B.V. The intended uses of the new shipyard include manufacturing superyachts and conducting refitting work. Furthermore, the Group will continue to prioritise and expand its operations in the sales of superyachts, provision of after-sales services, luxury yacht rentals, onboard entertainment, and yacht tourism.

The Directors believe the proposed acquisition of B&W Beleggingen B.V. is a developmental milestone in the Group's yacht business, allowing the Group to expand its yacht business out of China and can further enhance the business portfolio of the Group's yacht business by providing a more comprehensive range of services. With such investment pursuant to the MOU, the Directors believe that the Group's income stream will be broadened and beneficial to the Group as a whole. In addition, leveraging the Group's expertise on the manufacturing and sales of superyacht, the Group will also consider further expanding its reach to the development of other types of vessels such as megayachts, cruises and cargo vessels in future. For more details, please refer to the announcements of the Company dated 7 November 2023 and 13 November 2023.

To align with the business strategies of the Group, new measures or strategies may be formulated or implemented from time to time, depending on availability and feasibility of the then opportunities. The Management is confident that the responsive measures taken have allowed the Group to deploy its resources into businesses with promising future, and will therefore enhance its revenue base and create long-term profitability.

ACKNOWLEDGEMENT

On behalf of the Board, I wish to take this opportunity to express our appreciation to the Management and staff of the Group for their commitment and dedication and sincere gratitude to the shareholders for their continued confidence in and support of the Group.

For and on behalf of the Board of
Sky Blue 11 Company Limited

Li Weina
Executive Director

Hong Kong, 28 March 2024

Set out below is a management discussion and analysis of the Group for the year ended 31 December 2023.

SEGMENT REVIEW

Design and sales of integrated circuit and semi-conductor parts

Design and distribution of integrated circuit and semi-conductor parts in the PRC, Hong Kong and Taiwan remains as one of the core businesses of the Group. The Group acquires raw material integrated circuit ("**IC**") and semi-conductor related parts from external suppliers and relies on internet technology and related equipment for the design of IC related products before sourcing out to external sub-contractors for production. The Group does not involve in the manufacturing processes in the course of business.

The Group's IC products are used in industrial and housing measuring tools and electronic bicycles battery charger market. The core research and development team in Shanghai, the PRC provides the design of the products and the products are then sourced to certain external suppliers or sub-contractors for subsequent productions. After conducting successful testing of the sub-contracted products in Shanghai, the PRC, the Group then sells the products to customers, which are usually end-product manufacturers/producers.

There are mainly two types of products in integrated circuit and semi-conductor parts: caliper and microcontroller unit ("**MCU**"), each of the products has approximately 10 different models. For the year ended 31 December 2023, the total product mix between caliper and MCU remained relatively stable, approximately 22% (2022: 22%) of the revenue was generated from the caliper and MCU respectively.

For the year ended 31 December 2023, the operation of this segment recorded (i) a revenue of approximately HK$25.2 million (2022: approximately HK$34.5 million); and (ii) a loss of approximately HK$0.6 million (2022: recorded a profit of approximately HK$2 million). The Management noticed that competition in the IC market was becoming more intensive as a result of rapid technological advancement, increasing production costs and evolving customers' demands and favors, which exerted further pressure on profit margins. The Group has therefore contemplated to exploit more resources to the yacht businesses and other newly developed businesses with higher profit margins.

Executive jet management

Services provided by this business mainly include executive jet management, aircraft sales service and pilot training service. The main revenue comprised of aircraft management service fee, aircraft operation agency fee, pilot rental fee, aircraft maintenance and management fee. The Management adopted a customer-oriented strategy and focused on improving the service quality, as well as expanding the service categories, with an aim to build up competitive advantages to tackle with external competitions.

During the year ended 31 December 2023, the commercial airline industry experienced a revival due to the release of travel restrictions, allowing and capable for increased passenger demand. On the other side, the executive jet industry encountered ongoing challenges arising from the prolonged COVID-19 pandemic. Following the COVID-19 pandemic, businesses as well as individuals who previously utilized executive jets began to return to commercial airlines as health and safety concerns diminished. They may further opt for virtual meetings and remote work arrangement. The changing preferences in travel behavior reduced the demand for executive jet services. As a results, nil revenue and segment loss of approximately HK$5.4 million were recorded for the year ended 31 December 2023 while a revenue of approximately HK$26.8 million and segment loss of approximately HK$0.1 million were recorded for the year ended 31 December 2022.

The Group will adopt prudent approach in assessing the development in executive jet management and seek potential opportunities within the industry. While pursuing opportunities, the Group will also exercise cautious approach in allocating its limited resources. It will prioritise its core businesses that have higher profit margins and to generate better results to the shareholders of the Company.

Yacht businesses

The Group commenced to look for business opportunities in the yacht businesses since 2019 by entering into a non-exclusive agency agreement with an independent third party to sell 46-meter mega yachts and 110-feet catamaran yachts. In late 2020, the Group noticed excellent growth potential in the yacht industry, especially under the consideration that (i) the yacht consumption or investment was getting more recognition among the affluent class; (ii) construction of the relevant facilities, such as yacht harbor and yacht club, had made yacht consumption more feasible and appealing; and (iii) customers had preference to well-branded yachts with world-wide presence, which offered more opportunities to the Group. As such, the Management was in the view that it would be beneficial for the Group to deploy additional resources to expand the yacht businesses.

The Group made a strategic move in 2021 by establishing a production facility in Hainan, the PRC, where labour and material costs were relatively low. It provides the Group with flexibility in cost control and allows the Group to be benefit from a much more competitive cost base comparing to other overseas yacht manufacturers. The relatively lower manufacturing costs in the PRC combined with the centuries-old Balk brand and the sophisticated technologies from the Netherlands, the Group will be able to deliver high quality yachts at a competitive price. In the past years, several aggressive expansion strategies were taken by the Group in expansion of the yacht businesses, which included i) further expansion in its shipyard facilities in Hainan of the PRC, ii) establishment of a research and development center in the Netherlands, iii) engaging adept and skillful workforce, iv) building sales teams and/or agencies in major cities around the world, and v) contributing more resources in marketing and promoting the yacht related businesses. These collective strategies enhance the Group's competitive position and allow the Group to deliver wide range of products and services to customers. Along with the strategic potential acquisition of B&W Beleggingen B.V., a company currently holds the lease rights for a building plot in a new harbour MSNF in the Neverlands, the Group, through a combination of strategic investment, branding establishment and technological advancements, is in confident in positioning itself as one of the most recognised yacht companies.

During the year ended 31 December 2022, the Group signed a couple of sales agreements with independent third parties to sell, in aggregate, nine 46-meter super yachts. In May 2023, due to its own financial difficulties, one of the customers cancelled its purchase order for five 46-meter super yachts. The purchase deposits of approximately RMB79 million were instead utilized by that customer to purchase a second hand refitted 46-meter super yacht, which was then delivered to the customer during the reporting period. The remaining four super yachts were still under construction and outfitting throughout the year ended 31 December 2023.

As a result, revenue of approximately HK$88.8 million and segment loss of approximately HK$7.4 million were recorded for the year ended 31 December 2023, while revenue of approximately HK$119.8 million and segment profit of approximately HK$23.4 million were recorded for the year ended 31 December 2022. The loss was mainly due to the provision of impairment for inventories of approximately HK$15.5 million.

Moving forward, the Group will actively promote its yacht offerings, capitalizing on its reputable brand, highlighting the distinctive features and advantages of its super yachts and expanding its reach to the development of other types of vessels such as megayachts, cruises and cargo vessels in order to generate sales growth in the yacht business segment. In addition, the Management will consistently and closely monitor the performance of the yacht business to formulate feasible and profitable long-term strategies.

Property Investment

The Group possessed a leasehold interest on a land parcel in the Island of Saipan, with a site area of approximately 4,536 square meters upon which there is a housing development namely Miller's Estates. The total gross floor area of these properties in the Island of Saipan was approximately 1,953 square meters within six apartment buildings containing an aggregate of 31 apartment units. According to the valuation assessed by an independent professional valuer, the properties in the Island of Saipan had a value of approximately HK$28.9 million as at 31 December 2023 (2022: approximately HK$30.3 million). The properties in the Island of Saipan constituted the sole investment of the Group's investment properties.

The economy in the Island of Saipan heavily depends on tourism which was detrimentally hit by the COVID-19 pandemic. The local government has been working on resumption of its tourism industry since last year and it is expected the economy will be recovered gently. Since the local real estate market in the Island of Saipan was recovering from the economy downturn resulting from the COVID-19, the Management adopted a passive and prudent investment strategy for this business segment for the reporting year. Nil revenue and segment loss of approximately HK$1.5 million were recorded for the year ended 31 December 2023, while nil revenue and segment loss were recorded for the year ended 31 December 2022. The Group would consider and explore different options in realising the investment potential of the properties, such as leasing or sales based upon the market situation.

Investment Holding

As at 31 December 2023, the Group had the following investments:

- 23,000,000 unlisted shares of Cornerstone Securities Limited ("**Cornerstone Securities**"), representing approximately 8.81% of the entire issued capital of Cornerstone Securities. Cornerstone Securities is a company incorporated in Hong Kong with limited liability. It holds licenses to conduct the type 1 regulated activity (dealing in securities) and the type 4 regulated activity (advising on securities) and is principally engaged in security dealing business in Hong Kong. As at 31 December 2023, the investment in Cornerstone Securities has a fair value of approximately HK$4.4 million (2022: approximately HK$3.9 million), representing approximately 1.2% of the total assets of the Company (2022: approximately 0.8%).

- 202 unlisted shares of Red Power Developments Limited ("**Red Power**"), representing 20.2% of the entire issued capital of Red Power, which is a company incorporated in the British Virgin Islands with limited liability. Through its subsidiaries, Red Power is principally engaged in the provision of air transportation services, development, sales, lease and maintenance of equipment involving the application of aviation technology in the PRC. The Group carried out an impairment assessment of Red Power and full impairment of the investment in an associate was recognised during the year ended 31 December 2021. For more details, please refer to the announcement of the Company dated 28 November 2022 and annual report 2021 of the Company.

  For the year ended 31 December 2023, (i) no acquisition or disposal of the investment in Cornerstone Securities and Red Power was conducted; and (ii) no dividend in relation to the investment in Cornerstone Securities and Red Power was received or claimed. The Company intends to hold the investment in Cornerstone Securities as a passive and long-term investment as at 31 December 2023.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's operations, financials and prospects are affected by risks and uncertainties. Based on a review on the operation and environment of the Group's businesses, the risk factors listed below may directly or indirectly lead to significant differences in the Group's operating performances, financial positions and development prospects from its expected or past performances. These factors are not comprehensive, and there may be other risks and uncertainties that are not known by the Group or may not be noticeable at present, but may become significant in the future.

Business Risk

The Group's businesses are subject to risks associated with changes in the general macroeconomic, political, social and regulatory conditions in the markets in which it operates.

Performance of all business segments of the Group may be affected by fluctuations in market prices and market demands of the Group's final products and services. Some products, for example, integrated circuits and semi-conductor parts manufactured by the Group, have a relatively standardized design and/or predetermined production cycle, and therefore may not be able to meet changeable requirements of the customers. On the other hand, the executive jet management services and the yacht businesses are subject to price and quality competitions from other service providers and yacht manufacturers. If the Group fails to adapt and respond successfully, it may adversely affect the business performance and development prospects.

Raw materials or outsourced services which are provided by the Group's suppliers are subject to price fluctuations. The Group does not enter into any material contracts to hedge against such price fluctuations. Therefore, any increases in these raw materials or outsourced services will exert pressures on the Group's costs, gross profits and final prices that the Group in turn charges the customers. Should there be any significant increases in the prices of raw materials or outsourced services which are out of the Group's expectation over a period, the Group's performances would be significantly affected.

Industry Risk

All business segments of the Group are operated in industries which are highly competitive. Competition may intensify as the Group's competitors expand their products or services, lower their prices, or strengthen their qualities. There may be new competitors entering into the Group's existing markets as well. If the Group does not compete successfully against existing and new competitors, the Group may not be able to maintain its existing business scale and operating performance.

Policy Risk

Some business segments of the Group must abide by various policies and regulations. For example, the executive jet management business and the yachting businesses are all subject to intensive compliance requirements. Central and local regulators may require the Group to apply for new licenses, and impose new rules, regulations or requirements. Changes in policies and regulations will affect the development of the Group's business, such as increasing compliance costs and reducing business opportunities.

Credit Risk

All business segments of the Group allow a certain credit term for the customers. All trade and other receivables are accounted for by their carrying amounts less expected credit loss. However, such amounts do not represent the Group's maximum exposure to credit risk. On the other hand, the Group has certain long-term equity investments in listed and unlisted companies in Hong Kong. All the Group's financial assets, including trade and other receivables and equity investments, are subject to credit risk. Save for their own performances of each individual customer and each investment, there are a lot of factors which can affect their credit risks, such as the general economy, government policies and investor confidences.

Other Risks

Some risks are not noticeable from the daily operations of the Group, but they can have a material adverse impact on the Group. For the year ended 31 December 2023, the operations of the Group were significantly influenced by the extended period of recovery following the post COVID-19 pandemic and such may deteriorate other risks and uncertainty that the Group are facing, such as an increase in credit risk. Given the complexity, materiality and unpredictability of these events, the Group is of the view that their impacts may take a longer time to fully emerge. Therefore, the financial results of the Group in the past may not have fully reflected all impacts caused by the COVID-19 pandemic.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2023, the Group achieved a revenue of approximately HK$114.0 million (2022: approximately HK$181.1 million). The revenue was principally contributed by the Group's core businesses, i.e. the design and sales of integrated circuits and semi-conductor parts and the manufacturing and sales of yachts and other yacht related businesses.

For the year ended 31 December 2023, 22% (2022: 19.1%) of the consolidated revenue came from the business of the design and sales of integrated circuits and semi-conductor parts and 78% (2022: 66.1%) of the consolidated revenue came from the business of manufacturing and sales of yachts and other yacht related businesses.

Operating expenses

Operating expenses comprise selling and distribution costs and general and administrative expenses in aggregate of approximately HK$68.6 million for the year ended 31 December 2023 (2022: approximately HK$75.3 million). Such decrease was mainly due to substantially less agency fee related to sales of yachts incurred in 2023.

Loss for the year

For the year ended 31 December 2023, loss for the year attributable to owners of the Company was approximately HK$46.4 million (2022: approximately HK$2.2 million). Basic loss per share attributable to ordinary equity holders of the Company was approximately HK$12.54 cents (2022: approximately HK$0.60 cents).

Liquidity and financial resources

On 22 December 2023, the Group entered into a placing agreement with a placing agent to place up to 74,049,028 new shares under the general mandate. On 17 January 2024, the placing of new shares under general mandate of the Company was completed. An aggregate of 74,049,028 placing shares, representing approximately 16.67% of the issued share capital of the Company as at the date of this Annual Report have been successfully placed to no less than six placees at the placing price of HK$0.56 per placing share. Please refer to announcements of the Company dated 22 December 2023 and 17 January 2024 for more details. Save for the above, the Group had no fund-raising activities during the year ended 31 December 2023.

As at 31 December 2023, the cash in banks of the Group amounted to approximately HK$69.1 million (2022: approximately HK$104.3 million), in which a cash deposit of approximately RMB43.4 million, equivalent to approximately HK$47.5 million, maintained in one of the bank accounts of the Group was frozen as a result of a ruling in respect of preservation of frozen accounts receivable issued by The People's Court of Longgang District, Huludao City in the PRC on 11 April 2023. Such Ruling was against one of the suppliers of the Group, namely Liaoning Jinlong Mega Yacht Manufacturing Co. Limited, for its failure to repay a loan borrowed from a bank in the PRC. For more details, please refer to the announcement of the Company dated 28 April 2023 (2022: nil). As of the date of this Annual Report, the Group's legal adviser is still dealing with the above-mentioned matters, and there is no new progress for the time being.

The Group had no outstanding loan as at 31 December 2023 (2022: nil).

Gearing ratio

The gearing ratio of the Group, defined as total liabilities expressed as a percentage of the total equity and liabilities, was nil as at 31 December 2023 (2022: approximately 90%), which was attributed to the Group's net liabilities position. The Group did not have any interest-bearing debt financing during the reporting period.

Foreign currency exposure

The Group's results were exposed to exchange fluctuations of Renminbi as the Group had operations in the PRC. Certain materials used in the IC and semi-conductor parts and the cost of a yacht were settled in US dollars, which exposed the Group to exchange fluctuations of US$-RMB. Nevertheless, the Board considered that the Group in general was not exposed to significant foreign exchange risk, and had not employed any financial instrument for hedging. The Board will review the Group's foreign exchange risk and exposure from time to time and will apply hedging where necessary.

Capital structure

For the year ended 31 December 2023, there was no change to the authorised and issued share capital of the Company. As at 1 January 2023 and 31 December 2023, the Company had issued a total of 370,245,142 shares at the par value of HK$0.1 each. All shares were fully paid and rank pari passu with each other in all respects.

As at 31 December 2023, the shareholders' deficiency amounted to approximately HK$3.0 million (2022: the shareholders' fund were approximately HK$47.2 million).

Pledge of assets

As at 31 December 2023, the Group did not have any pledge of assets (2022: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATES

Save as disclosed in this Annual Report, there were no material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2023.

MATERIAL COMMITMENT

As at 31 December 2023, the Group did not have any material commitment (2022: Nil).

EVENTS AFTER THE REPORTING PERIOD

Change of auditor

On 29 January 2024, Zenith CPA Limited resigned as the auditor of the Company and Prism Hong Kong and Shanghai Limited was appointed as the auditor of the Company following the resignation of Zenith CPA Limited.

Change of company name

On 11 January 2024, a special resolution approving the proposed change of the company name by the shareholders of the Company was passed at the special general meeting of the Company. The Certificate of Change of Name and the Certificate of Secondary Name were issued by the Registrar of Companies in Bermuda certifying that the name of the Company has been changed from "Balk 1798 Group Limited" to "Sky Blue 11 Company Limited" and the secondary name of the Company has been changed from "巴克1798集團有限公司" to "天璽曜11有限公司", respectively, with effect from 17 January 2024. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 21 February 2024 confirming the registration of the Company's new English name of "Sky Blue 11 Company Limited" and new Chinese name of "天璽曜11有限公司" in Hong Kong under Part 16 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) with effect from that date.

Following the change of company name, the stock short name of the Company for trading in the shares of the Company on the Stock Exchange will be changed from "BALK 1798 GP" to "SKY BLUE 11" in English and from「巴克1798集團」to「天璽曜11」in Chinese simultaneously with effect from 5 April 2024. For more details, please refer to the announcements of the Company dated 1 November 2023, 11 January 2024 and 27 March 2024 and the circular of the Company dated 21 December 2023.

CONTINGENT LIABILITIES

No material contingent liabilities of the Group were noted as at 31 December 2023 (2022: nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, the Group had approximately 42 employees (2022: 140 employees). For the year ended 31 December 2023, total employee benefits expenses, including directors' emoluments, amounted to approximately HK$30.3 million (2022: approximately HK$32.8 million). The remuneration packages of employees are reviewed annually with reference to market level and individual staff performance. The Group's remuneration packages include basic salaries, bonus, contributions to provident fund and medical benefits.

FINAL DIVIDEND

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

ABOUT THIS REPORT

REPORT INTRODUCTION

The Group's Environmental, Social and Governance ("**ESG**") Report describes how the Group comprehensively practices the concept of sustainable development and fulfills its corporate citizenship responsibilities, which covers the period from 1 January 2023 to 31 December 2023 (the "**Year**"), and details the Group's efforts to support the principles of sustainable development and its performance in social governance during the Year.

REPORT SCOPE

The ESG Report describes overall environmental and social policies and performance of the Group's operations in the following businesses: i) design and sales of integrated circuits and semi-conductor parts used in industrial and household measuring tools and display products; ii) executive jet management services; iii) manufacturing and sales of yachts and other yacht related businesses; iv) property investment; and v) the "Headquarter and others" segment comprises principally the Group's corporate administrative and investment functions performed by the headquarter and provision of finance lease services. The environmental key performance indicators include the performance of the Group's design and sales of integrated circuits and semi-conductor parts from its offices in Shanghai, People's Republic of China (the "**PRC**") and the Group's head office in Hong Kong Special Administrative Region (the "**Hong Kong**"). This range is based on whether the Group has operational control of the entity and its significance to the environment[1].

REPORT FRAMEWORK

This ESG Report has been prepared by the Group in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 of the Listing Rules of The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") and the "Mandatory Disclosure" and "Comply or explain" provisions therein.

REPORTING PRINCIPLES

The content of the ESG Report is determined based on a stakeholder engagement and materiality assessment process, including the identification of ESG-related issues, the collection and review of management and stakeholder comments and suggestions, the assessment of the relevance and importance of different issues, and the preparation and validation of the reported content. The ESG Report covers the key issues of concern to different stakeholders.

The disclosure of quantified environmental and social KPIs in the ESG report provides stakeholders with a comprehensive understanding of the Group's ESG performance. Where appropriate, information on the criteria, method, references and data sources of these KPIs are set out. In addition, to facilitate comparison of ESG reporting between years, the Group has adopted a consistent reporting format and calculation method as far as reasonably practicable. Any changes to the method have been presented and detailed in the corresponding sections.

[1] Executive jet management services only provide management services without operation of any aircraft facilities, hence its business has no significant impact on the environment. The sales of yachts and other yacht related businesses were newly established operating segment of the Group. During the Year, most of the Group's yacht construction was outsourced to third party suppliers and the Group carried out insignificant proportion in terms of production of the yachts, therefore, its businesses had no significant effect on the environment. As a result, the Group will not disclose any environmental statistics of the yacht related businesses, but its operation and its significance to the environment will be considered in the future to decide whether it shall be included into the scope of environmental key performance indicators.

INFORMATION AND FEEDBACK

The Group values your views on this report and if you have any comments or suggestions, you are welcome to contact the Group by means of:

Fax: 2534 7899

Address: Suite 6504, 65/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong

ESG GOVERNANCE

Statement of the Board of Directors

The Group believes that sound ESG governance principles and practices are critical to the long-term development of the business and will help enhance the value of corporate investments and generate long-term returns for stakeholders. To ensure that proper and effective ESG risk management measures and internal control systems are in place, the Board has established clear ESG duties and responsibilities to directly oversee the Group's ESG-related matters and work. The Board is responsible for monitoring and reviewing the compliance of ESG-related matters with laws and regulations and reviewing the Group's ESG performance on a regular basis. The Board is also responsible for reviewing the content and quality of ESG reports to ensure that the ESG reports meet the requirements of the Board.

During the Year, the Group engaged a third party professional consultant to assist in identifying ESG issues and provide advice on the Group's ESG performance. The professional consultant assisted in collecting and analyzing the views of the Group's stakeholders on ESG issues and conducted materiality assessment. The Board reviews the results of the assessment and identifies important ESG issues for the Group. The Board is responsible for regularly reviewing the communication channels with stakeholders to ensure that the Company maintains effective communication with them.

In order to effectively lead the Group's ESG process, the Board continuously monitors the ESG efforts and keeps abreast of the latest ESG disclosure requirements of the Hong Kong Stock Exchange to ensure close cooperation among various departments to achieve the goal of operating in compliance and social responsibility. The Board also considers, reviews and refines the relevant work plans and implementation annually in light of the objectives set by the Group, and oversees the coordination and management of ESG issues.

Stakeholder engagement

The Group believes that stakeholder engagement and continued support is important to our long-term development and helps us to better understand the current level of development in environmental and social aspects. We look forward to communicating with our stakeholders in order to refine our sustainability strategy and achieve our goals. Therefore, we communicate with our stakeholders through various channels to allow different sectors of stakeholders to express their views and make suggestions, and we understand and try to respond to their expectations and requests so as to enhance our performance in our sustainability strategy.

Stakeholders	Expectations and Requirements	Communication and Response
Government and Regulators	• Comply with national policies and laws and regulations • Promote local economic development • Promote local employment • Pay taxes on time • Safe production	• Regular information reporting • Special report • Inspection and supervision
Shareholders	• Returns on revenue • Compliance operation • Enhance the value of the Company • Transparent information and efficient communication	• Shareholders' general meeting • Company announcement • Email, telephone communication and Company website
Partners	• Business integrity • Fair competition • Performance by law • Mutual benefit	• Review and evaluation session • Business communication • Exchange and discussion • Negotiate cooperation
Customers	• Quality products and services • Health and safety • Performance by law • Business integrity	• Customer service center and hotline • Customer opinion survey • Customer communication meeting
Environment	• Emission compliance • Energy saving and emission reduction • Ecological protection	• Communication with local environmental authorities
Employees	• Protection of rights and interests • Occupational health • Compensation and benefits • Career development • Care	• Employees mailbox
Community and public	• Open and transparent information	• Company website • Company announcement

Materiality Assessment

In order to develop a clear and effective ESG management approach, the Group conducted a materiality assessment during the Year to identify ESG issues of importance to the Group's business and its stakeholders. This materiality assessment was based on internal stakeholder input, analysis of input from third party ESG professionals, materiality map provided by external authorities[2] and in consideration of actual business operations. During the Year, the Group identified five ESG-related materiality issues and disclosed them in detail in the report.

Important Issues	Related Chapters
Salary and Fringe Benefits	• Valuing employees
Protection of intellectual property rights	• Intellectual Property Management
Information security	• Customer Information Protection
Customer Privacy Protection	• Customer Information Protection
Anti-corruption	• Anti-corruption

ENVIRONMENTAL PROTECTION

The Group is fully aware of the importance of environmental protection and has adopted various measures to reduce emissions and effectively utilize resources in pursuit of business growth while striving to minimize the impact of our business operations on the surrounding environment. The Group strictly complies with all environment-related laws and regulations, including but not limited to the Environmental Protection Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China, the Air Pollution Prevention and Control Law of the People's Republic of China, the Law of the People's Republic of China on Environmental Prevention and Control of Solid Waste Pollution and the Water Pollution Control Ordinance and the Waste Disposal Ordinance of Hong Kong. During the Year, the Group was not involved in or found to be in breach of any environmental related laws and regulations.

The Group's core businesses is the design and distribution of integrated circuits and semi-conductor parts in the PRC, relying mainly on internet technology and related equipment to design integrated circuits related products, and no production process is involved in the course of its business. Therefore, the Group does not generate any industrial exhaust gas and industrial effluent.

Emissions Management

Exhaust Gas Emissions

One of the Group's businesses is the design and distribution of integrated circuits and semi-conductor parts and its business operations are mainly conducted in office premises. Although the Group's vehicles in daily operation generate a small amount of air pollutants, the Group has regularly maintained and serviced the Company's vehicle fleet to maintain efficient operation of the vehicles and to prevent the vehicles from consuming more fuel and generating extra air pollutants due to reduced performance. The Group also ensures that no idling vehicles run their engines to further reduce vehicle emissions. The Group's objective is to maintain and minimize the emission of air pollutants as far as possible.

[2] Materiality assessment is based on the ESG Industry Materiality Map provided by Morgan Stanley Capital International (MSCI) and the Materiality Map provided by the Sustainability Accounting Standards Board (SASB).

During the year, the Group's air pollutant emissions from the use of vehicles are as follows:

Vehicle air pollutants *(Note 1)*	**In 2023**	**In 2022**
Nitrogen oxides (kg)	3.87	5.29
Sulfur oxides (kg)	0.10	0.14
Particulate matter (kg)	0.29	0.39

Notes:

1. Air pollutants generated from vehicles were calculated in accordance with the Guidelines on Reporting of Environmental Key Performance Indicators published by the Hong Kong Stock Exchange.

Waste Emissions

The Group generates a small amount of non-hazardous waste in its daily office work, mainly office paper and general household waste. The Group strictly complies with the laws and regulations related to waste disposal, and all non-hazardous waste will be collected and properly disposed of by qualified companies. As part of our efforts, we strive to reduce, reuse and recycle waste in our operations by setting up separate bins in our offices to recycle waste paper, metals and plastics. At the same time, we encourage employees to use the Electronic Office System (OA System) to replace the office administration system based on paper records. Reuse envelopes, folders, file cards and other stationery items, and reduce the use of disposable or non-recyclable products, such as using rechargeable batteries instead of disposable batteries. In addition, the Group also generates a small amount of hazardous waste, such as waste batteries and ink cartridges, and we will collect and dispose of hazardous waste in an appropriate and legal manner, such as placing waste batteries in recycling bins. The Group will continue to improve its existing waste management system, actively encourage employees to separate waste and reduce unnecessary waste, so as to reduce the impact of waste on the environment.

During the year, the Group's non-hazardous waste and hazardous waste generation were as follows:

castoff	**In 2023**	**In 2022**
Total amount of non-hazardous waste (tonnes) *(Note 1)*	2.01	3.39
Density of hazardous waste (tonnes/employee)	0.06	0.11
Total amount of hazardous waste (kg) *(Note 2)*	0.00	1.37
Density of hazardous waste (kg/employee)	0.00	0.04

Notes:

1. The Group started to disclose data on general office waste from the Year, resulting in an increase in the total amount of non-hazardous waste, which is based on actual weight and the estimated daily amount of general office waste and volume to weight conversion factor provided by the US Environmental Protection Agency. The non-hazardous waste generated by the Group includes waste paper and general office waste.

2. The calculation of hazardous waste generated by the Group is based on actual weight.

Use of Resources

The Group recognises that precious resources are limited and that business operations must make the most efficient use of resources to avoid unnecessary waste. The Group's resource consumption mainly consists of electricity, water and paper used in daily office operations and fuel for daily office vehicles. Due to the nature of the Group's business, it does not involve the production process of its products and therefore does not involve the use of any packaging materials.

Energy Consumption

The Group's energy consumption is mainly based on office operations, which mainly comes from the purchased electricity of the offices and the gasoline used in the company's fleet. With the goal of efficient use of energy resources, the Group has formulated a series of energy management measures in the office. In terms of lighting, the Group's offices use daylight as much as possible, and set up independently controllable lighting switches in different office areas, so that employees are required to turn off the lights in the non-use office areas when leaving the office to reduce unnecessary power consumption. In addition, the Group's offices regularly keep their lighting fixtures and lights clean to maximize their energy efficiency. In terms of air-conditioning, the Group avoids the installation of air-conditioners where the sun is directly exposed to them, uses split air-conditioners with Grade 1 Energy Efficiency Label, and cleans the filters regularly to enhance their energy efficiency. Set the minimum temperature of the air-conditioning system at 25.5 degrees Celsius in the office, and turn off the air-conditioning when the office is not in use.

During the year, the Group's energy consumption was as follows:

Energy consumption	**In 2023**	**In 2022**
Total energy consumption (MWh)	113.72	145.79
Direct energy consumption – vehicle fuel consumption (MWh) *(Note 1)*	63.61	89.29
Indirect Energy Consumption – Purchased Electricity (MWh)	50.11	56.50
Energy consumption intensity (MWh/employee) *(Note 2)*	3.55	4.56

Notes:

1. Petrol consumption for vehicle use is calculated in accordance with Appendix II: Reporting Guidelines on Environmental Key Performance Indicators published by the Hong Kong Stock Exchange.

2. The Group started to disclose energy consumption intensity data from the Year.

Water Consumption

As the Group's offices are rented, the water consumption is under the full control of the property management services company and therefore no water related consumption can be collected. The Group does not set a target to reduce water consumption in consideration of the unavailability of relevant water consumption data. However, the Group is aware of the preciousness of water resources and has been encouraging its staff to conserve water. The Group has posted reminder stickers in the pantries and toilets to remind staff to turn off the taps and conserve water at all times, at the same time, reduce the water pressure to the lowest possible level and recycle grey water for cleaning and irrigation. If any water leakage is found in the water supply facilities, we will immediately inform the property management company to arrange for maintenance and inspection to avoid wastage of water resources. During the year, the Group did not have any problems related to the access to suitable water sources.

Green Operation

The Group actively promotes environmental protection and strives to incorporate environmental protection concepts into its internal management and daily operations to minimize the impact of its business operations on the environment as far as possible. Therefore, the Group continues to promote green office, adopt energy saving and waste reduction measures at different levels, and raise the environmental awareness of our staff through internal publicity.

The Group's offices use electronic devices with energy efficiency label. Electronic devices are completely switched off during non-office hours and we also set computers to go into automatic standby/sleep mode when they are idle to reduce wasted power. We will conduct monthly electricity statistics to monitor electricity consumption and make appropriate improvement measures if necessary. In addition, the Group allows employees to go without ties and full suits in hot weather and to wear light clothing to work on Fridays to reduce the use of air-conditioning.

In terms of reducing paper usage, the Group has implemented a "paperless system" concept to replace the paper-based office administration system. Employees use e-mail and electronic workflow to transmit information as much as possible to reduce paper usage. We have also set our computers and printers to double-sided printing and ink-saving mode by default, and posted notices at prominent locations next to our copiers to remind our staff to use double-sided photocopying or reusable paper.

In addition, we have put up notices and posters with green messages in our offices, and we have distributed environmental newsletters to our staff to promote and teach energy saving and waste reduction measures, such as encouraging our staff to use less lifts, more stairs and less disposable, non-recyclable products and planting green plants in office areas, in order to enhance their awareness of environmental protection.

In terms of event organization and management, the Group has actively reduced wastage, such as organizing activities in easily accessible locations, optimizing the planned routes for transportation and goods delivery. In terms of diet, we choose low-carbon ingredients or locally produced food to reduce the carbon emission of food delivery, and avoid the use of disposable cutlery and try to reduce food packaging in activities.

Responding to Climate Change

Climate change has become a global environmental concern, and all sectors of society need to work together to reduce carbon emissions to mitigate the negative impacts of climate change. During the year, the Group did not identify any significant physical and transition risks related to its business caused by climate change, but as a responsible company, the Group is committed to properly managing carbon emissions generated from its business operations with the goal of maintaining and reducing greenhouse gas emissions as much as possible. In addition to adopting various measures to save energy and enhance energy efficiency, the Group also reduces carbon emissions from its daily operations through various means. In order to reduce the carbon emissions generated by daily office vehicles, the Group provides low-carbon driving training to drivers, such as avoiding sudden acceleration of vehicles. Wherever possible, the Group arranges for telephone or video conferencing to replace non-essential overseas travel. The Group also encourages employees to commute by public transport to reduce greenhouse gas emissions during their commuting.

During the year, the Group's greenhouse gas emissions were as follows:

Greenhouse gas	**In 2023**	**In 2022**
Total greenhouse gas emissions (tCO_2e).	53.58	65.9
Scope 1 – Direct emissions (tCO_2e) *(Note 1)*	17.41	24.6
Scope 2 – Energy indirect emissions (tCO_2e) *(Note 2)*	35.34	39.9
Scope 3 – Other indirect emissions (tCO_2e) *(Note 3)*	0.84	0
Greenhouse gas emissions intensity (tCO_2e/employee) *(Note 4)*	1.67	2.06

Notes:

1. Scope 1 direct emissions are direct emissions from operations owned or controlled by the Group. The Group's direct greenhouse gas emissions are from fuel consumption of vehicles. The data is calculated based on the relevant emission factors provided by the National Development and Reform Commission of the PRC and Appendix II: Reporting Guidelines on Environmental Key Performance Indicators issued by the Hong Kong Stock Exchange.

2. Scope 2 energy indirect emissions are indirect greenhouse gas emissions from energy purchased or obtained by the Group. The Group's indirect greenhouse gas emissions from energy sources are only from purchased electricity. The greenhouse gas emission data of the PRC office is calculated based on the average carbon dioxide emission factors of the regional power grid in the PRC issued by the National Development and Reform Commission of the PRC, as well as the method of accounting for greenhouse gas emissions of the relevant enterprises and the relevant emission factors. The greenhouse gas emission data of the Hong Kong office is based on the emission factors provided by The Hong Kong Electric Company Limited.

3. Scope 3 other indirect emissions covers other indirect greenhouse gas emissions that occur outside the Group. During the Year, the Group had no business activities due to the COVID-19 pandemic and the disclosed figures are only from waste paper disposed of at landfills. The figures are calculated in accordance with Appendix II: Reporting Guidance on Environmental Key Performance Indicators issued by the Hong Kong Stock Exchange.

4. The Group started to disclose greenhouse gas emission intensity data from the Year.

VALUING EMPLOYEES

The Group regards its employees as the most valuable asset of the Group and an important factor in its development and success. Therefore, the Group is committed to providing good remuneration and benefits to its employees, creating an equal, inclusive, comfortable and safe working environment, providing diversified training and development opportunities, and protecting their rights and interests.

Employee Benefits

The Group promotes fairness and equality in the workplace, does not tolerate any form of discrimination, and is committed to defending the rights and interests of our employees. We strictly comply with the laws and regulations of the PRC and Hong Kong in relation to employment, including but not limited to the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and the Employment Ordinance. When recruiting talents, the Group selects suitable talents in accordance with the principles of fairness and openness. The Group decides the personnel to be recruited according to the actual needs of each department. We only consider whether the applicant's qualifications such as education, work experience, language ability and attitude are in line with the relevant job requirements, regardless of the applicant's gender, age, disability, race, nationality, religion, social class and other factors.

The Group also complies with relevant laws and regulations such as the Regulations on the Prohibition of Child Labor of the People's Republic of China and the Regulations on Employment of Children. The Group has established a comprehensive recruitment process that requires checking the background of candidates. We will carefully check the supporting documents of candidates such as identity cards and academic certificates to confirm whether their age, identity, education and appearance are consistent with the supporting documents provided by them, so as to eliminate all cases of child labor. If we find that an employee has committed fraud, we will terminate the employee immediately. To ensure that our employees have sufficient time to work and rest, we operate a five-day work week and discourage overtime work to avoid forced labor. If employees are required to work overtime, we will provide them with overtime pay in accordance with relevant laws and regulations. The Group also conducts regular reviews and inspections to prevent any child labor or forced labor in our business operations.

In addition, the Group carefully considers each termination and resignation. When an employee requests to leave, the head of the human resources department will interview him/her to understand the reasons for leaving, in order to identify and manage issues related to the employee turnover rate and further improve internal management policies. During the Year, the Group was not aware of any material violations related to employment laws and regulations.

During the year, the Group had a total of 42 employees, and the distribution of employees by different categories is as follows.

Employment	In 2023 Number of Employees (%)	In 2022 Number of Employees (%)
By gender		
Male	21 (50%)	107 (76%)
Female	21 (50%)	33 (24%)
By age		
Less than 30	0 (0%)	24 (17%)
30 to 50	26 (62%)	93 (66%)
Over 50	16 (38%)	23 (16%)
By region		
The PRC	33 (79%)	119 (85%)
Hong Kong	9 (21%)	21 (15%)
By type of employment		
Full-time	32 (76%)	130 (93%)
Part-time	10 (24%)	10 (7%)

Compensation and Benefits

The Group offers competitive remuneration and diversified benefits packages to attract talented people and motivate employees to work efficiently. The Group implements competitive remuneration packages based on internal and external reference standards. At the same time, we conduct annual performance appraisals of our employees and adjust their salaries and bonuses based on their performance and results of the Company. In addition, the Group attaches great importance to the well-being of its employees and provides them with pension, medical, unemployment insurance and housing provident fund in accordance with the relevant national regulations, as well as additional protection, including commercial insurance for outpatient and emergency medical treatment, supplemental mutual medical insurance for in-service employees, group mutual medical insurance for special serious diseases and supplemental mutual medical insurance for retirement hospitalization. Apart from five-day working, the Group also promotes work-life balance and employees are entitled to different types of leave, including statutory holidays, annual leave, sick leave, personal leave, wedding leave, bereavement leave and maternity leave, so that employees can have sufficient rest time.

Training and development

The Group believes that the continuous improvement and development of its staff is crucial to the long-term development of the business. The Group encourages employees to participate in personal and professional training to meet the needs of emerging technologies and new equipment, and the related training costs will be borne by the Group. The Group also arranges training for new employees, covering topics including Company introduction, Company policies, security and confidentiality, learning of employee rules and regulations, job duties and procedures, to help new employees understand the background and business objectives of the Company, inspire enthusiasm for the Company and their jobs, and strengthen team spirit. In addition, in order to enhance the working ability of employees and improve their efficiency, the Company offers public training courses, including language training and office automation training. In terms of career development, the Group conducts regular performance appraisals to recognize and reward employees for their contributions, performance and skills, in order to identify outstanding talents and provide promotion opportunities. To ensure that our employees have ample room for development, we will consider internal promotions before conducting external recruitment. The Group does not currently have a training data recording system in place, so it is unable to disclose the training data for the current year. The Group is committed to establishing a sound training data recording system as soon as possible and disclosing the relevant training data in the next year.

Health & Safety

The Group has always attached importance to occupational safety and strictly complied with the relevant rules and regulations in the PRC, including the Production Safety Law of the People's Republic of China and the Law of the People's Republic of China on Prevention and Control of Occupational Diseases, as well as the statutory requirements in Hong Kong, including the Occupational Safety and Health Ordinance. We have established an occupational health and safety management system to provide a safe working environment to our office employees. We have established safety measures for jobs that are considered to be more hazardous and provide necessary protective equipment for our employees. When an injury or illness occurs, we investigate the cause and respond to all reports of unsafe and unhealthy work environments and implement improvement measures. To enhance employee safety awareness, we train employees on the hazards they may encounter at work and how to protect themselves, and inform them about safety inspections, injury and illness statistics, and other safety-related matters. Smoking is strictly prohibited in the Group's offices and we arrange staff to clean up liquids and debris on the floor in a timely manner to prevent employees from slipping and falling. During the Year, no non-compliance with health and safety laws and regulations was found and there were no lost workdays due to work-related injuries. There were also no work-related fatalities in the last three years.

Health & Safety	**2023**	**2022**	**2021**
Number of work-related fatalities (persons)	0	0	0
Work-related fatality rates (percentage)	0	0	0

OPERATING PRACTICES

The Group is committed to providing excellent product quality and quality service to its customers and has developed a comprehensive Supplier Management Policy to identify and manage environmental and social risks in the supply chain. The Group has adopted various measures to protect the privacy of customers and safeguard intellectual property rights. The Group also upholds the business philosophy of ethics and integrity to eliminate unscrupulous business practices.

Supply Chain Management

The Group has implemented a comprehensive Supplier Management Policy to regulate supplier management and improve operational standards. When selecting new suppliers, the Group compares at least three different companies and uses their product quality, delivery, price and compliance as evaluation criteria. We attach more importance to the legal compliance records and loyalty culture of our suppliers' operations than cost considerations. The Group also attaches great importance to the environmental and social risk management of our suppliers. The Group's procurement department is responsible for organizing the supplier evaluation work in two ways which include the ongoing project evaluation and the annual assessment. Before starting business with suppliers, the Group's procurement department conducts annual reviews and evaluations on various aspects, including occupational health and safety, employee rights protection, environmental protection and corporate social responsibility, to ensure that their operations comply with national standards or relevant regulations, and there are no child labor or forced labor issues. In terms of the environment, the Group prefers to corporate with sustainable suppliers and gives priority to suppliers with ISO50001 energy management system certification, ISO14001 environmental management system certification, and low carbon product certification. The Group requires suppliers to sign environmental protection Undertaking Letter to ensure that the raw materials supplied comply with the requirements of relevant laws and regulations on environmental protection. In terms of social aspects, the Group preference will be given to suppliers who have a sound supply chain management system and follow international standards related to social risk management such as ISO26000. The Group regularly identifies, evaluates, manages and monitors the environmental and relevant social risks associated with the supply chain, and suppliers are required to respond quickly to the evaluation results and take effective measures to improve the services provided within the required time frame. The Group has the right to terminate cooperation with service providers that violation or fail to meet standards.

In addition, the Group also advocates green purchasing strategies. We prioritize purchase or selection products and services that have lowest environmental impact. The products we purchase must have higher recycling efficiency, less packaging, longer expiration dates or higher energy efficiency. The integrated circuit-related parts we purchase must emit fewer radioactive or hazardous substances during installation, use or disposal. We also give preference to local suppliers or suppliers that are geographically closer to reduce our carbon footprint.

During the year, the Group had a total of 73 suppliers, including 16 suppliers located in East China, 46 suppliers located in South China and 11 suppliers located in Northeast China, all of which were required to comply with the Group's supplier management system.

Product and Services Quality Management

The Group has established a quality management system for integrated circuit design and sales operation, which has obtained ISO9001 quality management system certification to strictly regulate product quality and customer service requirements. Before any project is conducted, we communicate with our customers and confirm the direction of work, and actively coordinate the progress of project with them in the process of providing services to ensure the quality of products meets their needs and expectations. The Group formulates relevant acceptance criteria during product inspection and testing in accordance with product-related standards and law and regulatory requirements. We monitor the quality of products and services at different stages, such as inspection of incoming goods, first article inspection, in-process inspection and final inspection, and the products are delivered to customers only after passing the final inspection. Products that have passed the final inspection are labeled with product number for traceability and quality tracking. We strictly control the quality of raw materials, intermediate products and finished products, and have formulated management methods for the evaluation and disposal of unqualified products. If we find that the raw materials purchased do not meet the quality requirements, we will arrange to return the products or dispose them. If quality problems occur after delivery, we will assess unqualified products, propose disposal plans and take immediate preventive and corrective measures to ensure that the products meet the quality requirements. During the Year, there was no recall of the Group's distributed products due to safety and health reasons.

The Group also provides favorable customer services. Sales staff will visit customers from time to time after the delivery of products to understand customers' opinions and ideas on product and service quality. We will take timely measures to meet customers' quality requirements in accordance with the corrective or preventive measures control procedures. If we receive complaints from customers, we will handle, follow up and conduct independent investigation as soon as possible, and analyze and review the customer complaints for continuous improvement the quality of products and services of the Group. During the Year, the Group did not receive any complaint cases regarding the Group's products and services.

Customer Information Protection

With respect to customer information and privacy, the Group not only strictly complies with relevant laws and regulations such as the Law of the People's Republic of China on Protection of Consumer Rights and Interests and the Personal Data (Privacy) Ordinance of Hong Kong, but also strives to protect the privacy of customers through various measures. The Group collects and uses customer information in a lawful manner and limits the use of customer information to the purposes specified in the contract. The Group also strengthens the awareness of its employees to protect customer privacy, collect and use customer information in a lawful form, and limit the use of customer information to the means specified in the contract. The Code of Conduct also requires employees to strictly maintain confidentiality and prohibits disclosing any customer information. In addition, we also take measures to ensure the security of our computer database and the safety of customer information. During the Year, the Group was not involved in or aware of any violations with privacy-related laws and regulations.

Intellectual Property Management

The Group's day-to-day operations involve the use of the intellectual property owned by customers, suppliers or the Group itself. Therefore, the protection of intellectual property rights is an extremely important task for the Group. When the Group engages with its customers or suppliers, it will include the protection of intellectual property in the contractual terms. The Group's legal department will also review all the contracts in operation and ensure that the contractual terms protect both parties' intellectual property rights. The Group also requires technical professionals to sign strict confidentiality agreements and prohibits the disclosure of the Company's internal business policies, production data, technical documents including patented product design drawings, process documents, quality control data and information. Employees may not use our technical secrets for others or for themselves after they leave the company. In addition, the Company uses genuine software and employees are required to submit a request to the Company before installing any software to avoid infringement of others' intellectual property rights.

The Group complies with relevant laws governing the confidentiality of intellectual property, including but not limited to Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China and Copyright Law of the People's Republic of China, the Copyright Ordinance and the Trademark Ordinance of Hong Kong. During the Year, the Group was not involved in or aware of any violation with relevant laws and regulations related to intellectual property rights.

Anti-Corruption

The Group upholds the business philosophy of "abiding by the law, integrity and quality service" and has been complying with anti-corruption related laws and regulations, including but not limited to the Anti-Unfair Competition Law of the PRC and the Prevention of Bribery Ordinance of Hong Kong. The Group has implemented the Prevention of Commercial Bribery Management Policy, strengthening its internal control mechanism, anti-corruption and anti-bribery work. For projects with higher monetary value, the Group makes an open bidding invitation to at least three suppliers. Different level of approval and authorization is required according to the size of the tender agreement. The Group also strictly forbidden employees to bribe customers or use business opportunities or power to obtain personal interests or benefits. If there is a conflict of interest, it needs to be reported to the management of the Group on a timely basis.

The Group has established a reporting mechanism, including the establishment of an inspection team and the establishment of a channel for evaluation and reporting. The Group also encourages employees and all persons with whom the Group does business, including customers and suppliers, to report the suspected wrongdoing or corruption within the Group voluntarily. If substantiated, serious offenders will be dismissed.

During the Year, no anti-corruption training was arranged for our staff, but we will look for suitable anti-corruption training in the future to enhance the integrity, ethics and probity awareness of our directors and staff. During the Year, the Group was not aware of any non-compliance with relevant laws and regulations related to anti-corruption and there were no corruption cases against the Group or its employees that have been concluded.

COMMUNITY INVOLVEMENT

As a responsible enterprise, the Group has maintained close communication and interaction with the community, and actively strives to contribute to the development of the community. The Group organizes and supports employees to participate in volunteer services, such as regular visits to those in need, outdoor activities for the disabled, blood donation days, etc., to benefit the local community, so as to provide employees with the opportunity to learn more about social and environmental issues and enhance the corporate value of the Group. From time to time, the Group also considers donating to charitable organisations when the Group has recorded profit after tax and has sufficient funds.

The Board of Sky Blue 11 Company Limited (formerly known as Balk 1798 Group Limited) submits their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investments holding. For the year ended 31 December 2023, the Group was principally engaged in (i) design and sales of integrated circuits and semi-conductor parts; (ii) executive jet management; and (iii) manufacturing and sales of yachts and other yacht related businesses.

COMPLIANCE WITH THE LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risks of non-compliance with the applicable laws and regulations. For the year ended 31 December 2023, the Group complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach or non-compliance with the applicable laws and regulations by the Group for the year ended 31 December 2023.

BUSINESS REVIEW

Discussion and analysis of business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of likely future developments in the Group's business, can be found in the "Management Discussion and Analysis" of this Annual Report and the notes to the Consolidated Financial Statements of this Annual Report. Discussions on the Group's environmental policies, relationships with its key stakeholders, and compliance with relevant laws and regulations which have a significant impact on the Group are contained in the "Environmental, Social and Governance Report" of this Annual Report. The above discussions form part of the Report of the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year ended 31 December 2023 attributable to the Group's major suppliers and customers are as follows:

	Percentage of the total purchases/sales accounted for
Purchases	
– the largest supplier	75%
– five largest suppliers combined	83%
Sales	
– the largest customer	78%
– five largest customers combined	96%

None of the Directors, or any of their close associates, or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in any of the major customers and suppliers noted above.

EMOLUMENT POLICY OF THE GROUP

The emolument policy of the employees of the Group is reviewed regularly by the Board. Remuneration packages are structured to take into account the merit, qualifications and competence of individual employees as well as the general market conditions.

FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

There was no advance, which is of non-trading nature, to any of the affiliated companies as at 31 December 2023 as defined under Chapter 13 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange.

FINANCIAL RESULTS

Details of the Group's results for the year ended 31 December 2023 are set out in the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income of this Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year ended 31 December 2023 are set out in note 15 to the Consolidated Financial Statements of this Annual Report.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders by reason of their holding of the Company's listed securities.

RESERVES

Details of the movements in reserves of the Group and the Company for the year ended 31 December 2023 are set out in the Consolidated Statement of Changes in Equity, together with relevant notes to the Consolidated Financial Statements of this Annual Report.

DISTRIBUTABLE RESERVES

As at 31 December 2023, no reserves were available for distribution to shareholders by the Company as calculated in accordance with the Companies Act 1981 of Bermuda.

SHARE CAPITAL

As at 31 December 2023, the Company had an authorised share capital of HK$100,000,000, divided into 1,000,000,000 shares of HK$0.1 each, and an issued share capital of 370,245,142 shares of HK$0.1 each.

On 17 January 2024, the placing of new shares under general mandate of the Company was completed. An aggregate of 74,049,028 placing shares, representing approximately 16.67% of the issued share capital of the Company as at the date of this Annual Report have been successfully placed to no less than six placees at the placing price of HK$0.56 per placing share. Please refer to announcement of the Company dated 22 December 2023 and 17 January 2024 for more details.

As at 31 December 2023, the Company did not have any preference shares, options, convertible bonds or equity-related instruments.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2023, the Group did not enter into any equity-linked agreement.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws (the "**Bye-laws**") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 6 of this Annual Report.

DIVIDEND

The Board does not recommend the payment of dividend for the year ended 31 December 2023.

DIRECTORS

The Directors who held office from 1 January 2023 and up to the date of this Annual Report are as follows:

BOARD OF DIRECTORS

Executive Directors

Ms. Li Weina
Mr. Zhang Fumin
Mr. Wang Yi *Note 1*
Dr. Zhang Yu *Note 2*

Independent Non-Executive Directors

Ms. Ching Ching
Dr. Song Donglin
Dr. Zhang Shengdong

BOARD COMMITTEES

Audit Committee
Ms. Ching Ching *(Chairman)*
Dr. Song Donglin
Dr. Zhang Shengdong

Nomination Committee
Dr. Song Donglin *(Chairman)*
Ms. Ching Ching
Dr. Zhang Shengdong

Remuneration Committee
Dr. Song Donglin *(Chairman)*
Ms. Ching Ching
Dr. Zhang Shengdong

Notes:

1. Resigned on 6 April 2023
2. Appointed on 6 April 2023

CHANGE OF DIRECTORS

A summary of change of Directors of the Company from 1 January 2023 to the date of this Annual Report is set out below:

(i) Mr. Wang Yi resigned as an executive Director with effect from 6 April 2023; and

(ii) Dr. Zhang Yu was appointed as an executive Director on 6 April 2023.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors of the Company is currently in force and was in force throughout the financial year. The Company has taken out and maintained directors and officers liability insurance which provides appropriate cover for, among others, the Directors of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2023 was the Company or any of its associated corporations a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under 18 years of age was granted any right to subscribe for any shares in, or debentures of, the Company or any of its associated corporations.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

None of the Directors or an entity connected with any of them is or was materially interested, either directly or indirectly, in any transactions, arrangements and contract of significance subsisting during or at the year ended 31 December 2023.

COMPETING BUSINESS

For the year ended 31 December 2023, none of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

REASONS RELATED TO THE COMPANY'S AFFAIRS GIVEN BY A DIRECTOR FOR RESIGNATION OR NOT SEEKING RE-APPOINTMENT

For the year ended 31 December 2023, all directors who resigned or did not seek re-appointment confirmed that there was no reason related to the Company's affairs.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Latest biographical details of the Directors and senior management of the Company are set out in "Director and Senior Management Biographies" of this Annual Report.

DISCLOSURE OF CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Save as disclosed in the section headed "Directors and Senior Management Biographies", there was no change in information of the Directors and chief executives of the Company up to the date of this Annual Report which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts, other than a contract of service with any Director or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or existed for the year ended 31 December 2023.

DIRECTORS' SERVICE CONTRACTS

For the year ended 31 December 2023, none of the Directors had a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The emoluments of Directors and senior management are recommended by the remuneration committee of the Company and determined by taking into consideration of their duties and responsibilities with the Company, the market rate and their time, effort and expertise to be input into the Group's affairs and the Company's performance.

Details of the emoluments of the Directors and senior management of the Company are set out in note 10 to the Consolidated Financial Statements of this Annual Report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY OF ITS ASSOCIATED CORPORATIONS

As at 31 December 2023, none of the directors' and chief executives has the interests or short positions of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix C3 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code to regulate the Directors' securities transactions. The Company had made specific enquiry of all Directors regarding any non-compliance with the Model Code for the period under review, and they all have confirmed their respective full compliance with the required standard set out in the Model Code for the year ended 31 December 2023.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received, from each independent non-executive Director, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2023, the interest and short positions in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) of the substantial shareholders (other than the Directors and chief executives of the Company) as recorded in the register required to be kept under Section 336 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange, were set out below:

Name of substantial shareholders	Capacity/nature	Number of shares/ underlying shares held/interested in	Long/short position	Percentage of shareholding *(Note 1)*
Duan Hongtao *(Note 2 and Note 3)*	Interested in controlled corporation(s)	56,867,012	Long	15.36%
Zhongying Int'l *(Note 2)*	Beneficial Owner	56,867,012	Long	15.36%
Arrab Chalid	Interested in controlled corporation(s)	68,500,000	Long	18.50%
LLOYDS INVESTMENT GROUP FZCO *(Note 4)*	Beneficial Owner	68,500,000	Long	18.50%

1. Based on 370,245,142 ordinary shares of the Company in issue as at 31 December 2023.

2. As at 31 December 2023, Mr. Duan Hongtao owned 99% of the issued shares of Zhongying Int'l which beneficially owned 56,867,012 shares of the Company.

3. Mr. Duan Hongtao resigned as an executive Director and Chairman of the Company with effect from 14 February 2022.

4. On 15 September 2022, Zhongying Int'l transferred a total of 68,500,000 shares of the Company to LLOYDS INVESTMENT GROUP FZCO.

As at 31 December 2023 and save as disclosed, there was no interest and short position in the shares and underlying shares of the Company (within the meaning of Part XV of the SFO) of the substantial shareholders (other than the Directors and chief executives of the Company) as recorded in the register required to be kept under Section 336 of Part XV of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2023.

CORPORATE GOVERNANCE PRACTICES

Details of the Group's corporate governance practices for the year ended 31 December 2023 are set out in the "Corporate Governance Report" of this Annual Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE PRACTICES

Details of the Group's environmental, social and governance practices for the year ended 31 December 2023 are set out in the "Environmental, Social and Governance Report" of this Annual Report.

CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

No contract of significance had been entered between the Company or any of its subsidiaries, and the controlling shareholders of the Company (as defined in the Listing Rules) or any of its subsidiaries. No contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholders of the Company (as defined in the Listing Rules) or any of its subsidiaries.

Details of the related party transactions undertaken in the usual course of business are set out in note 34 to the Consolidated Financial Statements of this Annual Report. None of these related party transactions constitutes "connected transactions" or "continuing connected transactions" as defined under Chapter 14A of the Listing Rules and therefore there is no disclosure requirements in accordance with Chapter 14A of the Listing Rules.

AUDIT COMMITTEE

The audit committee of the Company comprises solely independent non-executive Directors, namely Ms. Ching Ching (chairman), Dr. Song Donglin and Dr. Zhang Shengdong. The Group's annual results for the year ended 31 December 2023 have been reviewed by the audit committee of the Company.

AUDITOR

Zenith CPA Limited resigned as the auditor of the Company with effect from 29 January 2024 and Prism Hong Kong and Shanghai Limited was appointed as the auditor of the Company following the resignation of Zenith CPA Limited.

The audited financial statements of the Group for the year ended 31 December 2023 have been audited by Prism Hong Kong and Shanghai Limited, who retires and a resolution for its reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
Sky Blue 11 Company Limited

Li Weina
Executive Director

Hong Kong, 28 March 2024

The Group recognises the value and importance to achieving high corporate governance standards to enhance corporate performance and accountability. The Board of is committed to maintain sound corporate governance standard and procedures to ensure integrity, transparency, and quality of disclosure in order to enhance the shareholders' value.

CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2023, the Company complied with the principles as set out in the Corporate Governance Code ("**CG Code**") contained in Appendix C1 to the Listing Rules and the code provisions contained therein except for the following deviation.

The CG Code stipulates the non-executive director should be appointed for a specific term and subject to re-election. The executive Director and independent non-executive Directors were not appointed for specific terms. They are subject to retirement by rotation at least once every three years and re-election at the Company's annual general meeting in accordance with the Bye-laws. At every annual general meeting of the Company, one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the nearest but no less than one-third shall retire from office by rotation. Every director should be subject to retirement by rotation at least once every three years.

The Company regularly reviews its corporate governance practices to ensure they comply with the CG Code and align with the latest development.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting the required standard set out in the Model Code. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code for the year ended 31 December 2023, all Directors confirmed their respective full compliance with the required standard as set out in the Model Code for the year ended 31 December 2023.

THE BOARD COMPOSITION

As at the date of this Annual Report, the Board comprises six Directors, including three executive Directors and three independent non-executive Directors. The number of independent non-executive Directors has met the minimum requirement of the Listing Rules and represented more than one-third of the total Board members. Further, one of the independent non-executive directors possesses appropriate professional accounting qualifications and/or financial management expertise.

As of the date of this Annual Report, the members of the Board are as follows:

Executive Directors
Ms. Li Weina
Mr. Zhang Fumin
Dr. Zhang Yu

Independent Non-Executive Directors
Ms. Ching Ching
Dr. Song Donglin
Dr. Zhang Shengdong

The biographical details of the Directors are contained in the section headed "Directors and Senior Management Biographies" of this Annual Report.

There is no fixed term or proposed length of service for each of the Directors (including the independent non-executive Directors) except that the appointment is subject to the requirements under the Listing Rules, the Bye-laws and any other applicable laws and regulations, and the appointment can be terminated by either party by giving the other party one months' written notice in advance.

When the Board considers any material proposal or transaction in which a Director has a conflict of interest, the Director who has interests declares his/her interest and is required to abstain from voting and is not counted in the quorum.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

THE BOARD FUNCTIONS
Other than the regulatory and statutory responsibilities of the Board, the key functions of the Board are to formulate strategy and to monitor and control operating and financial performance in pursuit of the Group's strategic objective. The Board, led by the Chairman, retains full responsibility for setting objective and business development plans. All Directors (including executive Directors and independent non-executive Directors) have been consulted on major and material matters of the Company and have made active contribution to the affairs of the Board. The Board is committed to make decisions in the best interest of the Group. The main responsibilities of the Management is to manage, operate and co-ordinate the business of the Company, execute the strategies formulated by the Board and make decisions in respect of daily matters.

CORPORATE GOVERNANCE REPORT

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between Board members and the senior management of the Group. For the year ended 31 December 2023, 9 Board meetings were convened by the Company. The attendance of the Directors at the Board meetings and general meeting of the Company for the year ended 31 December 2023 is summarised below.

	Number of Board meetings attended/held	Number of general meeting attended/held
Executive Directors		
Ms. Li Weina	9/9	1/1
Mr. Zhang Fumin	9/9	1/1
Mr. Wang Yi *(Note 1)*	1/2	0/0
Dr. Zhang Yu *(Note 2)*	1/6	1/1
Independent non-executive Directors		
Ms. Ching Ching	9/9	1/1
Dr. Song Donglin	9/9	1/1
Dr. Zhang Shengdong	9/9	1/1

Notes:

1. Resigned on 6 April 2023
2. Appointed on 6 April 2023

Board meetings are held regularly at approximately quarterly intervals to review the financial and operating performance of the Group and held on ad hoc basis as required by business needs.

Reasonable notice has been given to Board members for all Board meetings in order to allow sufficient time for Directors to review the documents and all Directors are given an opportunity to include matters for discussion in the agenda and give opinion. All businesses transacted at the Board meetings were well-documented.

Directors are entitled to have access to Board papers and related materials and access to the advice and services of company secretary of the Company. Directors have the liberty to seek independent professional advice, if so required, at the Company's expenses as arranged by company secretary of the Company and they are at liberty to propose appropriate matters for inclusion in Board agendas.

For ensuring that Board procedures are followed and activities of the Board are efficient and effective, the company secretary of the Company will assist to prepare agendas for Board meetings and ensure the Board papers are disseminated to the Directors and Board Committees in a timely and comprehensive manner.

For the Group's compliance with the continuing obligations of the Listing Rules, The Codes on Takeovers and Mergers and Share Buy-backs, the SFO and the Companies Ordinance, including publication and dissemination of reports and financial statements and interim reports within the periods laid down in the Listing Rules, timely dissemination of announcements and information relating to the Group to the market and ensuring that proper notification is made of Director's dealings in securities of the Group, the Board engages the professional parties' input from time to time. In addition, all Directors are encouraged to attend the general meetings of the Company.

Directors are aware of their obligations for disclosure of interests in securities, connected transactions and inside information and ensure that the standards and disclosures required by the Listing Rules and the SFO are observed.

The Company has maintained liability insurance for Directors and senior management officers with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

DIRECTORS' TRAINING

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company would provide each newly appointed director a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Group's business and the Company's constitutional documents and guides on directors' duties to ensure that he/she is sufficiently aware of his/her responsibilities and obligations under the Listing Rules and other applicable regulatory requirements.

From time to time, relevant reading materials are provided to Directors with regard to regulatory and governance developments as well as organizing in-house training programme to refresh their knowledge and skills on the roles, functions and duties of a director of a listed company. The Company has devised a training record to assist the Directors to record the training they have undertaken.

For the year ended 31 December 2023, the Directors participated in the following trainings to develop and refresh their knowledge and skills:

	Types of training
Executive Directors	
Ms. Li Weina	B
Mr. Zhang Fumin	B
Mr. Wang Yi (Note 1)	B
Dr. Zhang Yu (Note 2)	A
Independent non-executive Directors	
Ms. Ching Ching	B
Dr. Song Donglin	B
Dr. Zhang Shengdong	B

A: attending seminars and/or programmes and/or conference
B: reading materials relating to the economy, general business or regulatory updates

Notes:

1. Resigned on 6 April 2023
2. Appointed on 6 April 2023

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge that they are primarily responsible for the preparation of the financial statements for the year ended 31 December 2023 which give a true and fair view and that appropriate accounting policies are selected and applied consistently.

To the best knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant count upon the Company's ability to continue as a going concern.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

For the year ended 31 December 2023, the position of Chairman remained vacant and its roles and functions were performed by all the executive Directors collectively while the Chief Executive Officer was Mr. Lam Fuk Tak.

The Chairman takes primary responsibility for the work of the Board, by ensuring its effective function, while the Chief Executive Officer bears executive responsibilities for the Company's businesses and the management of the day-to-day operations of the Company.

BOARD COMMITTEES

The Board has established three Board Committees, namely, the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**"), to assist the Board in discharging its duties and to oversee particular aspects of the Group's affairs. All the Board Committees have clear written terms of reference and have to report on their decisions and recommendation to the Board. These written terms of reference are available for access at the principal place of business of the Company in Hong Kong and each of the committee members was furnished with a copy of the respective terms of reference.

The written terms of reference of the Board Committees are also available on the websites of the Company (www.skyblue11.com) and the Stock Exchange.

All business dealt with by the Board Committees were well-documented. Draft and final versions of the Board Committees' minutes are sent to all the respective Board Committees' members for comments and records within reasonable time.

1. Audit Committee

The Audit Committee comprises solely independent non-executive Directors. As at 31 December 2023 and as at the date of this Annual Report, the Audit Committee consists of three independent non-executive Directors, namely, Ms. Ching Ching (chairman), Dr. Song Donglin and Dr. Zhang Shengdong.

The Audit Committee is responsible for the following:

- reviewing and supervising the Company's financial reporting process, risk management and internal control systems;

- reviewing the accounting principles and practices adopted by the Group and other financial reporting matters and ensure the completeness, accuracy and fairness of the financial statements;

- making recommendations as to the effectiveness of internal control and risk management;

- monitoring the compliance with statutory and listing requirements and to oversee the relationship with the external auditor; and

- reviewing arrangements to enable employees of the Company to raise concerns about improprieties in financial reporting, internal control or other matters of the Company. The Audit Committee meets the external auditor and the senior management twice a year to discuss any areas of concern during the audits.

For the year ended 31 December 2023, the Audit Committee has reviewed (i) the annual report of the Group for the year ended 31 December 2022, (ii) the interim report of the Group for the 6 months ended 30 June 2023, (iii) the external auditor's engagement letter with recommendation to the Board for approval, (iv) the determination and reporting of key audit matters, and (v) the effectiveness of the risk management and internal control systems and internal audit function.

For the year ended 31 December 2023, 2 meetings were held with the Management and/or the external auditor. Members of the Audit Committee and their respective attendance at committee meetings were held during their term of office are listed below:

	Number of Audit Committee Meetings attended/held
Committee members	
Ms. Ching Ching	2/2
Dr. Song Donglin	2/2
Dr. Zhang Shengdong	2/2

2. Remuneration Committee

The Remuneration Committee comprises solely independent non-executive Directors. As at 31 December 2023 and as at the date of this Annual Report, the Remuneration Committee consists of three independent non-executive Directors, namely, Dr. Song Donglin (chairman), Ms. Ching Ching and Dr. Zhang Shengdong.

Its primary responsibilities include recommending, reviewing and determining the remuneration policy and packages of directors and senior management. Directors do not participate in the determination of their own remuneration.

For the year ended 31 December 2023, the Remuneration Committee has reviewed and recommended to the Board the Directors' remuneration. In making recommendations to the Board on the Directors' remuneration, the Remuneration Committee considered a number of factors including time commitment, responsibilities, qualification and the prevailing market rate. The remuneration of the Directors will be determined by the Board after obtaining authorisation at the general meetings of the Company.

For the year ended 31 December 2023, the Remuneration Committee held 2 meetings. Members of the Remuneration Committee and their respective attendance at the committee meetings during their term of office are listed below:

	Number of Remuneration Committee Meetings attended/held
Committee members	
Dr. Song Donglin	2/2
Ms. Ching Ching	2/2
Dr. Zhang Shengdong	2/2

3. Nomination Committee

The Nomination Committee comprises solely independent non-executive Directors. As at 31 December 2023 and as at the date of this Annual Report, the Nomination Committee consists of three independent non-executive Directors, namely, Dr. Song Donglin (chairman), Ms. Ching Ching and Dr. Zhang Shengdong.

Its primary responsibilities are to assist the Board to review the structure of the Board and make recommendations to the Board on the appointment or re-appointment of directors to the Board. It also reviews the Company's adopted board diversity policy, as appropriate, to ensure its continued effectiveness and make recommendations to the Board for consideration and approval.

Board Diversity Policy

Pursuant to the CG Code, the Board adopted a board diversity policy (the "**Board Diversity Policy**") in November 2013. Such policy aims to set out the approach to achieve diversity for the Board. The Company recognises the benefits of a Board that possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the businesses of the Company.

All Board appointments shall be based on merits and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates for Board members shall be based on a range of diversity perspectives including, but not limited to, gender, age, race, experience, cultural and educational background, skills and other qualities considered relevant and applicable. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board.

The Nomination Committee monitors the implementation of the Board Diversity Policy and reviews, as appropriate, from time to time. The Nomination Committee also ensure the continued effectiveness of the policy. The Nomination Committee shall discuss any revisions that may be required and recommend any such revisions to the Board for consideration and approval.

As at 31 December 2023,

— two Directors were within the age range of 30-39, one Director was within the age range of 40-49, two Directors were within the age range of 50-59, and one Director was within the age range of 60-69;

— Four Directors were male and two Directors were female;

— One Director served the Board for less than one year, two Directors served the Board for over one years but less than three years and three Directors served the Board for over three years.

As at the date of this Annual Report,

— one Director was within the age range of 30-39, one Director was within the age range of 40-49, two Directors were within the age range of 50-59, and two Directors was within the age range of 60-69;

— Four Directors were male and two Directors were female;

— One director served the Board for over one years but less than three years and four Directors served the Board for over three years.

As at 31 December 2023 and the date of this Annual Report,

— one Director possessed appropriate professional qualifications in finance and accounting and meets the requirements of the Listing Rules;

— three Directors, being over one third of the Board, were independent in accordance with the Listing Rules;

— all Directors contributed to the business of the Company with their own knowledge and experience.

In addition, as at 31 December 2023, the ratio of male and female employees of the Group was 1:1.

Nomination Policy

The Company adopted a nomination policy (the "**Nomination Policy**") in compliance with CG Code. The Nomination Committee and/or the Board shall consider the following criteria in evaluating and selecting candidates for directorships:

— Character and integrity;

— Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Group's business and corporate strategy;

— Willingness to devote adequate time to discharges duties as a Board member and other directorships and significant commitments;

— Requirement for the Board to have independent directors in accordance with the Listing Rules (as amended from time to time) and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules; and

— Such other perspectives appropriate to the Group's business.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

For the year ended 31 December 2023, the Nomination Committee has reviewed the structure, size and composition of the Board and the independence of the independent non-executive Directors.

For the year ended 31 December 2023, the Nomination Committee held 2 meetings with the Management. Members of the Nomination Committee and their respective attendance at the committee meetings during their term of office are listed below:

	Number of Nomination Committee Meetings attended/held
Committee members	
Dr. Song Donglin	2/2
Ms. Ching Ching	2/2
Dr. Zhang Shengdong	2/2

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company. For the year ended 31 December 2023, the Board has discharged the following corporate governance duties:

- To develop and review the Company's policies and practices on corporate governance and make recommendations on changes and updating;
- To review and monitor the training and continuous professional development of Directors and senior management;
- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors;
- To review the Company's compliance with the CG Code and disclosure in the "Corporate Governance Report" of this Annual Report; and
- To implement such other corporate governance duties and functions set out in the CG Code (as amended from time to time) for which the Board are responsible.

AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibility on the Company's consolidated financial statements for the year ended 31 December 2023 is set out in the section headed "Independent Auditor's Report" of this Annual Report.

For the year ended 31 December 2023, auditor's remuneration for audit services and non-audit services were approximately HK$1 million and nil respectively.

COMPANY SECRETARY

Mr. Lam Wai Kei ("**Mr. Lam**") was appointed as the company secretary of the Company (the "**Company Secretary**") on 22 September 2022. The Company Secretary is responsible for distributing detailed documents to the Directors prior to the Board meetings to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. All Directors have access to the advice and services of the Company Secretary with a view to ensuring that the Board procedures, and all applicable rules and regulations, are followed.

Mr. Lam has complied with Rule 3.29 of the Listing Rules of taking no less than 15 hours of relevant professional training.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems and internal controls 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 Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has established risk management manual to formulate the risk management process. The staff in all levels within the Group are also required to take the relevant responsibility on the risk management process. With reference to enterprise risk management – integrated framework issued by the Committee of Sponsoring Organisations of the Treadway Commission and the Company's enterprise risk management processes is summarised as follows:

1. Project initiation
2. Risk identification
3. Risk analysis
4. Risk treatment
5. Risk monitoring
6. Risk reporting

The risk management and internal control systems are reviewed at least annually to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security to ensure appropriateness and effectiveness.

The Management, in coordination with division/department heads, assessed the likelihood of risk occurrence, provided treatment plans, and monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The Management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2023.

The heads of each core business segment monitor compliance with policies and procedures and the effectiveness of internal control systems in respect of their responsible business segments. The Company also engaged an independent external consulting firm to review and assess the effectiveness of the risk management and internal control systems of the Group during the year ended 31 December 2023. The assessment covers all material controls including financial, operational and compliance controls, as well as risk management functions for the year ended 31 December 2023.

The Audit Committee has reviewed the assessment report with the Management, and noted that no significant areas of improvement are brought to its attention. The Company also conducted a review on the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function for the year ended 31 December 2023. Accordingly, the Board was satisfied that the prevailing risk management and internal control systems of the Group are effective and adequate.

The Board, as supported by the Audit Committee as well as the Management, reviewed the effectiveness of risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2023, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources. Based on the above, the Board formed the view that the Company has established effective and adequate risk management and internal control systems.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

Control procedures have been implemented to ensure that unauthorised access and use of inside information are strictly prohibited.

COMMUNICATION WITH SHAREHOLDERS

The Board considers that effective communication with shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Board also recognizes the importance of timely disclosure of information, which will enable shareholders and investors to make informed investment decisions.

The various channels via which the Company communicates with shareholders of the Company (the "**Shareholders**") include interim and annual reports, information on the websites of the Stock Exchange and the Company, annual general meeting and other general meetings that may be convened.

RIGHTS OF SHAREHOLDERS

(i) The right to attend the annual general meeting and to receive information

The annual general meeting of the Company provides opportunity for Shareholders to communicate directly with the Directors. The chairman and the chairman of the Board committees will attend the annual general meeting to answer Shareholders' questions. In their absence, he should invite another member of the committee or his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that requires independent Shareholders' approval. The external auditor of the Company will also attend the annual general meeting to answer questions about the conduct of the audit, the preparation and contents of the auditor's report, the accounting policies and auditors' independence.

Copies of the reporting documents, including financial statements, the Directors' report and the auditor's report must be sent to members at least 21 clear days before the annual general meeting of the Company.

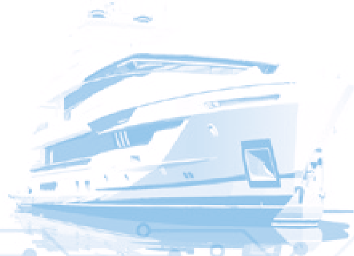
(ii) The right to convene an extraordinary general meeting

Any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition.

If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

(iii) The voting powers at the shareholders' meetings

Every shareholder has the right to vote at the Shareholders meetings subject to provisions of the Bye-laws.



(iv) The power to elect and re-elect Directors and auditors

The Shareholders could hold individual Directors (or the Board as a whole) to account for their actions by voting against their re-election. The Bye-laws provides at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

For the Directors to retire by rotation, and if they wish, they may submit themselves for re-election at the annual general meeting. The retiring Directors are eligible for reappointment to the office. Without the prescribed approval of the Shareholders, the Company shall not agree to any provision under which a director's term of employment exceeds or may exceed three years.

The Shareholders also have the right to approve (or reject) the appointment of the auditors each year. The Company may by an ordinary resolution passed at a general meeting to remove a person from the office of auditor despite any agreement between the person and the Company or anything in the Bye-laws.

(v) The right to receive information of the Company

The Company shall keep Shareholders informed of certain developments and to obtain shareholder approval for certain transactions in accordance with the Listing Rules. In these cases, the Company must communicate with the Shareholders and seek their support.

(vi) The right to communicate with the Company

The Chairman or the executive Directors should ensure that the views of the Shareholders are communicated to the Board as a whole and the chairman or the executive Directors should discuss strategy and governance with the major Shareholders.

Non-executive Directors should be given the opportunity to attend general meetings with major Shareholders, and should be expected to attend general meetings if requested by major Shareholders.

CONSTRUCTIVE USE OF GENERAL MEETINGS

(i) Effectiveness of general meetings

Shareholders should be given the opportunity to send in written questions before the meeting. There should be a circulation of a brief summary of points raised at the annual general meeting to all Shareholders after the event. The Board should despatch a circular accompanying the annual general meeting notice, which contains comprehensive information on the business to be transacted at the meeting, together with summary procedure governing voting at the annual general meeting and frequently asked questions regarding voting procedures.

The Company should arrange for the notice of the annual general meeting and the related papers to be sent to the Shareholders at least 21 clear days before the meeting. For other general meetings this should be at least 14 clear days in advance.

(ii) Giving shareholders an opportunity to ask questions

The chairman should attend the annual general meeting. He/she should also invite the chairmen of the Audit Committee, Nomination Committee and Remuneration Committee and any other committees (as appropriate) to be available to answer questions at the annual general meeting. In addition, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of Shareholders.

(iii) Voting procedure

At any general meeting, the Company proposes a separate resolution on each substantially separate issue and in particular proposes a resolution at the annual general meeting relating to the report and accounts. For each resolution, proxy appointment forms should provide Shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote.

At any general meeting there should also be a separate resolution to each substantially separate issue. The Company should avoid "bundling" resolutions unless they are interdependent and linked forming one significant proposal. Where the resolutions are "bundled", the Company should explain the reasons and material implications in the notice of meeting.

In the context of voting by proxy and poll results, the Company should ensure that all valid proxy appointments received are properly recorded and counted. For each resolution, after a vote has been taken, except where taken on a poll, the Company should ensure that the following information is given at the meeting and made available as soon as reasonably practicable on a website which is maintained by or on behalf of the company.

The Company should announce the poll results as soon as possible and at least 30 minutes before the commencement of the Stock Exchange's morning session or any pre-opening session on the business day following the general meeting. The poll results announcement must include: the number of shares entitling the holder to attend and vote at the general meeting; shares entitling the holder to attend and abstain from voting in favour; shares of holders that are required under the Listing Rules to abstain from voting; shares actually voted for a resolution and shares actually voted against a resolution.

SHAREHOLDERS' ENQUIRIES

Shareholders should direct their questions about their shareholdings to the company's registrar, Tricor Tengis Limited at 17/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong

Shareholders and the investment community may at any time make a request for the company's publicly available information. The designated contacts and addresses to enable them to make query in respect of the company are:

Contact:	The Board of Directors
Fax:	2534 7899
Address:	Suite 6504, 65/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong

CORPORATE WEBSITE

The Company's website is www.skyblue11.com.

Information submitted by the Company to the Stock Exchange is also posted as soon as practicable on the Company's website. Such information includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents. All presentation materials provided in relation to the Company's annual general meeting and results announcement each year should be made available on the Company's website as soon as practicable after their release.

DIVIDEND POLICY

The Company adopted a policy on payment of dividends (the "**Dividend Policy**") in compliance with the CG Code, which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company may declare and pay dividends to the Shareholders by way of cash or by other means that the Board of the Company considers appropriate. It is the policy of the Board, in recommending dividends, to allow the Shareholders to participate in the Company's profits, and at the same time, to ensure the Company to retain adequate reserves for future growth.

Factors to consider

The Company's decision to declare or to pay any dividends in the future, and the amount of such dividends will depend upon, among other things, the current and future operations, financial condition, liquidity position and capital requirements of the Group, as well as dividends received from the Company's subsidiaries and associates, which in turn will depend on the ability of those subsidiaries and associates to pay a dividend. In addition, any final dividends for a financial year will be subject to the approval of the Shareholders.

General Principle

The declaration and payment of dividends by the Company is also subject to any restrictions under the laws of Bermuda, the laws of Hong Kong, the Bye-laws and any applicable laws, rules and regulations.

Review of the Dividend Policy

Whilst this Dividend Policy reflects the Board's current views on the financial and cash-flow position of the Group, the Board will continue to review this Dividend Policy from time to time and the Board may exercise its sole and absolute discretion to update, amend and/or modify this Dividend Policy at any time as it deems fit and necessary. There is no assurance that dividends will be declared or paid in any particular amount for any given period. The Dividend Policy shall in no way constitute a legally binding commitment by the Company that any dividend will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

CHANGE OF COMPANY NAME AND STOCK SHORT NAME

Subsequent to the passing of a special resolution approving the proposed change of the company name by the shareholders of the Company at the annual general meeting held on 6 June 2022, the Certificate of Change of Name and the Certificate of Secondary Name were issued by the Registrar of Companies in Bermuda certifying that the name of the Company has been changed from "PacRay International Holdings Limited" to "Balk 1798 Group Limited" and the secondary name of the Company has been changed from「太睿國際控股有限公司」to「巴克1798集團有限公司」, respectively, with effect from 8 June 2022. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 23 August 2022 confirming the registration of the Company's new English name of "Balk 1798 Group Limited" and new Chinese name of「巴克1798集團有限公司」in Hong Kong under Part 16 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) with effect from that date.

Following the change of company name, the stock short name of the Company for trading in the shares of the Company on the Stock Exchange has been changed from "PACRAY INT'L" to "BALK 1798 GP"in English and from「太睿國際控股」to「巴克1798集團」in Chinese simultaneously with effect from 13 January 2023. For more details, please refer to the announcement of the Company dated 9 January 2023.

On 11 January 2024, a special resolution approving the proposed change of the company name by the shareholders of the Company was passed at the special general meeting of the Company. The Certificate of Change of Name and the Certificate of Secondary Name were issued by the Registrar of Companies in Bermuda certifying that the name of the Company has been changed from "Balk 1798 Group Limited" to "Sky Blue 11 Company Limited" and the secondary name of the Company has been changed from "巴克1798集團有限公司" to "天璽曜11有限公司", respectively, with effect from 17 January 2024. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 21 February 2024 confirming the registration of the Company's new English name of "Sky Blue 11 Company Limited" and new Chinese name of "天璽曜11有限公司" in Hong Kong under Part 16 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong) with effect from that date.

Following the change of company name, the stock short name of the Company for trading in the shares of the Company on the Stock Exchange will be changed from "BALK 1798 GP" to "SKY BLUE 11" in English and from「巴克1798集團」to「天璽曜11」in Chinese simultaneously with effect from 5 April 2024. For more details, please refer to the announcements of the Company dated 1 November 2023, 11 January 2024 and 27 March 2024 and the circular of the Company dated 21 December 2023.

CHANGE OF ADDRESS OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

With effect from 1 June 2023, the address of the principal place of business in Hong Kong of the Company has been changed to Suite 6504, 65/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

ADOPTION OF THE AMENDED AND RESTATED BYE-LAWS OF THE COMPANY

By passing a special resolution at the annual general meeting of the Company held on 6 June 2023, the Company adopted the amended and restated Bye-laws of the Company. An up-to-date version of the Company's Bye-laws are available on the websites of the Company and the Stock Exchange.

PLACING OF NEW SHARES UNDER GENERAL MANDATE

On 22 December 2023, the Company entered into a placing agreement with a placing agent to place up to 74,049,028 new shares under the general mandate. On 17 January 2024, the placing of new shares under general mandate of the Company was completed. An aggregate of 74,049,028 placing shares, representing approximately 16.67% of the issued share capital of the Company as at the date of this Annual Report have been successfully placed to no less than six placees at the placing price of HK$0.56 per placing share. Please refer to announcements of the Company dated 22 December 2023 and 17 January 2024 for more details.

CHANGE OF AUDITOR

On 29 January 2024, Zenith CPA Limited resigned as the auditor of the Company and Prism Hong Kong and Shanghai Limited was appointed as the auditor of the Company following the resignation of Zenith CPA Limited.

To the shareholders of Sky Blue 11 Company Limited
(formerly known as Balk 1798 Group Limited)
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Sky Blue 11 Company Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") set out on pages 68 to 156, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, consolidated statement of 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 material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (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.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 31 March 2023.

Material Uncertainty Related to the Going Concern

We draw attention to Note 2 to the consolidated financial statements, which indicates that the group recorded a loss of approximately HK$46,447,000 for the year ended 31 December 2023, and, as of that date, the Group's net current liabilities and net liabilities amounted to approximately HK$42,462,000 and HK$2,979,000 respectively. This condition, along with other matters as set forth in Note 2 to the consolidated financial statements, indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

To the shareholders of Sky Blue 11 Company Limited
(formerly known as Balk 1798 Group Limited)
(Incorporated in Bermuda with limited liability)

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.

The key audit matter	How the matter was addressed in our audit
Refer to Note 3 and Note 23 to the consolidated financial statements	
Provision for expected credit loss on trade and bill receivables	
The carrying value of the Group's trade and bills receivables as at 31 December 2023 amounted to HK$93,852,000, representing 26% of the Group's total assets as at 31 December 2023. The loss allowance charged to the statement of profit or loss for the year was HK$5,758,000, and the cumulative loss allowance for the trade and bills receivables carried as at 31 December 2023 was HK$5,818,000. The loss allowance for the impairment of trade and bills receivables was maintained to reduce the Group's trade and bills receivables to their estimated recoverable amounts.	1. We have assessed the appropriateness of evaluating the judgements and assumptions used for the impairment 2. We have understanded, evaluated and tested the key controls over the approval, recording and monitoring of trade and bills receivables; 3. We have tested, on sample basis, the trade and bills receivables ageing analysis by checking the underlying invoices, contracts and bank remittance documents; 4. We have assessed the management's assessment on credit risk of trade and bills receivables to consider grouping of receivables with similar credit characteristic and feature;

To the shareholders of Sky Blue 11 Company Limited
(formerly known as Balk 1798 Group Limited)
(Incorporated in Bermuda with limited liability)

KEY AUDIT MATTERS *(Continued)*

The key audit matter	How the matter was addressed in our audit
Refer to Note 3 and Note 23 to the consolidated financial statements *(Continued)* **Provision for expected credit loss on trade and bill receivables** *(Continued)*	
The loss allowance for the impairment of trade and bills receivables was maintained to reduce the Group's trade and bills receivables to their estimated recoverable amounts. Management evaluated the estimated loss allowance based on historical repayment behavior of debtors, ageing profile, specific information on individual customers as well as experience with collection trends, and current economic and business conditions. The management's continued refinement of the impairment of trade and bills receivables based on known customer information could provide a significant change in estimate between periods. We focused the impairment assessment of the trade and bills receivables as a key audit matter because of the material amounts involved, the significant judgement estimation and assumptions by management involved in the determination of loss allowance under the expected credit losses model.	5. We have assessed the probability of default of trade and bills receivables to reflect increase in credit risk or default and consider more one forward-looking information should be incorporated to reflect the change in credit risk of receivables; 6. We have tested the information used to determine the expected impairment loss by considering subsequent cash collection performance; 7. We have sent audit confirmation to those customers with significant balances to verify their existence; 8. We have discussed the approach and other credit exposures since initial recognition with measurement and external valuer in respect of the expected credit losses of the trade and bills receivables.

To the shareholders of Sky Blue 11 Company Limited
(formerly known as Balk 1798 Group Limited)
(Incorporated in Bermuda with limited liability)

KEY AUDIT MATTERS *(Continued)*

The key audit matter	How the matter was addressed in our audit
Refer to Note 3 and Note 22 to the consolidated financial statements *(Continued)* **Valuation for Inventory** As at 31 December 2023, the Group's held inventories amounted to HK$149,428,000 (net of impairment of provision for inventory of HK$14,529,000), representing 41.3% of the Group's total assets as at 31 December 2023. Inventories are carried at the lower of cost and net realisable value ("**NRV**") and an allowance is made by the Group, where necessary, for obsolete and slow moving inventories. Management determines the level of obsolescence of inventories by considering their nature, ageing profile, expiry dates and sales expectations using historic trends and other qualitative factors. The estimations are also subject to uncertainty as a result of future charges of market trends, customer demands and technology development.	1. We have understanded, evaluated and tested the key controls on management's assessment on allowance for inventories; 2. We have evaluated the Group's procedures on identifying damaged or obsoleted inventory, and observe management's inventory count, on sample basis 3. We have tested, on a sample basis, the accuracy of ageing profile of individual inventory items by checking the underlying delivery documents and purchase invoices 4. For net realisable value test, we have compared the estimated selling price of selected inventory items to the actual selling price subsequent to the year end, on a sample basis, and against its carrying values. 5. For the inventory items with no subsequent sales after the year end, we have discussed with management as to their net realisable value assessment and collaborate their explanations with sales orders on hand, current market price of similar products, historical margins and historical product life cycle of relevant inventory items, as appropriate.

To the shareholders of Sky Blue 11 Company Limited
(formerly known as Balk 1798 Group Limited)
(Incorporated in Bermuda with limited liability)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report, 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 OF THE COMPANY AND THOSE CHARGE WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

To the shareholders of Sky Blue 11 Company Limited
(formerly known as Balk 1798 Group Limited)
(Incorporated in Bermuda with limited liability)

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, solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

To the shareholders of Sky Blue 11 Company Limited
(formerly known as Balk 1798 Group Limited)
(Incorporated in Bermuda with limited liability)

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Fan Chi Hang Stephen.

Prism Hong Kong and Shanghai Limited
Certified Public Accountants
Fan Chi Hang Stephen
Practising Certificate Number: P06144
Hong Kong, 28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 HK$'000	2022 HK$'000
REVENUE	6	**113,970**	181,076
Cost of sales		**(82,411)**	(96,481)
Gross profit		**31,559**	84,595
Other income and (losses)/gains, net	7	**(850)**	927
Selling and distribution costs		**(7,053)**	(27,693)
General and administrative expenses		**(61,510)**	(47,588)
Finance costs	8	**(410)**	(4,763)
Impairment of financial assets		**(5,990)**	(2,072)
(LOSS)/PROFIT BEFORE TAX	9	**(44,254)**	3,406
Income tax expense	12	**(2,193)**	(5,642)
LOSS FOR THE YEAR		**(46,447)**	(2,236)
Attributable to:			
Owners of the Company		**(46,447)**	(2,236)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	14		
– Basic and diluted		**HK(12.54) cents**	HK(0.60) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 HK$'000	2022 HK$'000
LOSS FOR THE YEAR	**(46,447)**	(2,236)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(4,157)**	(12,972)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**460**	(4,520)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(3,697)**	(17,492)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(50,144)**	(19,728)
Attributable to:		
Owners of the Company	**(50,144)**	(19,728)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 HK$'000	2022 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,918**	2,460
Investment properties	16	**28,901**	30,328
Right-of-use assets	17(a)	**4,888**	1,266
Investment in an associate	18	**–**	–
Equity investments designated at fair value through other comprehensive income	19	**4,360**	3,900
Deferred tax assets	20	**354**	613
Long-term deposits	24	**1,052**	228
Total non-current assets		**41,473**	38,795
CURRENT ASSETS			
Finance lease receivable	21	**–**	–
Inventories	22	**149,428**	174,013
Trade and bills receivables	23	**93,852**	141,469
Prepayments, other receivables and other assets	24	**7,600**	3,128
Loans receivables	25	**–**	–
Financial assets at fair value through profit or loss	26	**67**	67
Tax recoverable		**152**	157
Cash and cash equivalents	27	**69,107**	104,326
Total current assets		**320,206**	423,160
CURRENT LIABILITIES			
Trade payables	28	**101,089**	66,398
Other payables and accruals	29	**12,134**	107,710
Lease liabilities	17(b)	**3,495**	764
Amount due to a shareholder	30	**237,530**	232,644
Tax payable		**8,420**	6,393
Total current liabilities		**362,668**	413,909
NET CURRENT (LIABILITIES)/ASSETS		**(42,462)**	9,251
TOTAL ASSETS LESS CURRENT LIABILITIES		**(989)**	48,046

	Notes	**2023 HK$'000**	2022 HK$'000
NON-CURRENT LIABILITIES			
Lease liabilities	17(b)	**1,990**	881
NET (LIABILITIES)/ASSETS		**(2,979)**	47,165
EQUITY			
Equity attributable to owners of the Company			
Share capital	31	**37,025**	37,025
Other reserves	32	**102,855**	106,552
Accumulated losses		**(142,859)**	(96,412)
(Capital deficiency)/total equity		**(2,979)**	47,165

Zhang Fumin
Director

Li Weina
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital HK$'000 (Note 31)	Other reserves HK$'000 (Note 32)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2022	37,025	119,701	(94,176)	62,550
Loss for the year	–	–	(2,236)	(2,236)
Other comprehensive loss for the year:				
Change in fair value of equity investments designated at fair value through other comprehensive income	–	(4,520)	–	(4,520)
Exchange differences on translation	–	(12,972)	–	(12,972)
Total comprehensive loss for the year	–	(17,492)	(2,236)	(19,728)
Deemed capital contribution arising from loans from a shareholder	–	4,343	–	4,343
At 31 December 2022 and 1 January 2023	**37,025**	**106,552**	**(96,412)**	**47,165**
Loss for the year	**–**	**–**	**(46,447)**	**(46,447)**
Other comprehensive income/(loss) for the year:				
Change in fair value of equity investments designated at fair value through other comprehensive income	**–**	**460**	**–**	**460**
Exchange differences on translation	**–**	**(4,157)**	**–**	**(4,157)**
Total comprehensive loss for the year	**–**	**(3,697)**	**(46,447)**	**(50,144)**
At 31 December 2023	**37,025**	**102,855**	**(142,859)**	**(2,979)**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 HK$'000	2022 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(44,254)**	3,406
Adjustments for:			
Interest income	7	**(140)**	(202)
Interest on loans from a shareholder	8	**–**	4,658
Depreciation of right-of-use assets	9	**1,826**	703
Depreciation of property, plant and equipment	9	**509**	1,023
Fair value losses on investment properties	6	**1,427**	–
Loss on disposal of property, plant and equipment	6	**–**	57
Impairment of trade and bills receivables	9	**5,758**	60
Impairment of finance lease receivables	9	**–**	1,947
Impairment of other receivables	9	**232**	65
Provision/(reversal) of impairment for inventories, net	9	**14,529**	(778)
Interest on lease liabilities	8	**410**	105
		(19,703)	11,044
Decrease/(increase) in inventories		**5,008**	(58,098)
Decrease/(increase) in trade and bills receivables		**41,782**	(111,059)
Increase in prepayments, other receivables and other assets		**(5,575)**	(1,622)
Increase in trade payables		**34,692**	48,092
(Decrease)/increase in other payables and accruals		**(93,518)**	94,827
Increase in amount due to a shareholder		**4,886**	37,996
Cash generated (used in)/from operations		**(32,428)**	21,180
Income tax paid, net		**(193)**	(1,653)
Net cash flows (used in)/from operating activities		**(32,621)**	19,527

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 HK$'000	2022 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(5)**	(25)
Interest received		**140**	202
Net cash flows from investing activities		**135**	177
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments		**(1,596)**	(319)
Interest element on lease liabilities		**(410)**	(105)
Net cash flows used in financing activities		**(2,006)**	(424)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(34,492)**	19,280
Cash and cash equivalents at beginning of year		**104,326**	86,172
Effect of foreign exchange rate changes, net		**(727)**	(1,126)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**69,107**	104,326

1 CORPORATE AND GROUP INFORMATION

Sky Blue 11 Company Limited (formerly known as Balk 1798 Group Limited, the "**Company**") was incorporated in Bermuda as an investment holding company with limited liability under the Companies Act 1981 of Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is Suite 6504, 65/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong, effective from 1 June 2023. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

During the year, the Company and its subsidiaries (collectively referred hereinafter as the "**Group**") were principally engaged in (i) the design and sales of integrated circuits and semi-conductor parts, (ii) executive jet management services, and (iii) manufacturing and sales of yachts and other yacht related businesses.

Information about subsidiaries

Particulars of the principal subsidiaries of the Company are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Able Summit Investment Limited	British Virgin Islands	US$1	100%	–	Investment holding
Antigua & Barbuda Investments (HK) Limited	Hong Kong	HK$1	–	100%	Provision of management services to the Group
Balk Yacht (Hainan) Limited* (巴克遊艇(海南)有限公司)#	The PRC	RMB110,000,000	–	100%	Manufacturing and refitting of yacht
Ideal Best Limited	British Virgin Islands	US$1	100%	–	Investment holding
International Business Aviation (Hong Kong) Limited	Hong Kong	HK$2	50%	50%	Executive jet management
PacRay Corporate Services Group Limited	Samoa	US$1	100%	–	Investment holding

1 CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
PacRay Tourism Development (Hong Kong) Limited	Hong Kong	HK$10,000	100%	–	Yacht businesses
Shanghai SyncMOS Semiconductor Company Limited* (上海新茂半導體有限公司)#	The PRC	US$7,000,000	–	100%	Design, distribution and trading of integrated circuit products and provision of related agency services in the PRC
SynMos Technologies Inc.	British Virgin Islands	US$1	100%	–	Investment holding
Win Win Property Investments Limited	British Virgin Islands	US$1	100%	–	Investment holding and sales of yachts

* For identification purposes only

\# The entity is registered as wholly-foreign-owned enterprise under laws of the People's Republic of China (the "**PRC**").

The above table lists the subsidiaries of the Company as at 31 December 2023 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standard ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of and by the Hong Kong Companies Ordinance.

Going concern

The Group recorded a loss of approximately HK$46,447,000 (2022: HK$2,236,000) for the year ended 31 December 2023, and, as of that date, the Group's net current liabilities and net liabilities amounted to approximately HK$42,462,000 (2022: net current assets of HK$9,251,000) and HK$2,979,000 (2022: net assets of HK$47,165,000) respectively. Further, as at 31 December 2023, the Group's cash in frozen bank account amounted to approximately RMB43,437,000, equivalent to approximately HK$47,450,000 (2022: nil). The Group's current liabilities were mainly due to a shareholder with an amounted HK$237,530,000 (2022: HK$232,644,000). The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

Notwithstanding this fact, the board of directors (the "**Directors**") consider it is appropriate to prepare the consolidated financial statements on a going concern basis as the Group is expected to have sufficient financial resources to meet its obligations as they fall due for at least the next twelve months based on its projected cash flow forecasts. The Directors have reviewed the financial position of the Group as at 31 December 2023, including its working capital and bank and cash balances, together with the projected cash flow forecasts for the next twelve months and the Directors consider that the Group is financial viable to continue as a going concern.

In addition, the Group can also improve its financial position, immediate liquidity and cash flows, by adopting the following measures:

1. the Group will carefully monitor and control administrative costs and future capital expenditures;

2. a shareholder of the Group has agreed to provide financial support for the continuing operations of the Company so as to enable it to meet its liabilities when they fall due for the foreseeable future and not call for any repayment of amount due to a shareholder until the Group is in a financial position to do so; and

3. the Directors have carried out a detail review of the working capital forecast of the Group for not less than twelve months from the year end date, which took into account the projected future working capital of the Group.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Application of new and amendments to Hong Kong financial reporting standards

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2023:

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

The application of the new and amendments to HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKFRSs issued but not yet effective

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

Amendments to HKFRS 21	*Lack of Exchangeability*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5(2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*[1]
Amendments to HKAS 1	*Non-current Liabilities with Covenants*[1]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*[1]

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

The directors of the Company anticipate that the application of other amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information

Historical cost basis

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

When necessary, adjustments are made to the financial statements of subsidiaries to being their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs incurred to effect a business combination are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities arising from the assets acquired and liabilities assumed in the business combination are recognised and measured in accordance with HKAS 12 Income Taxes;

- assets or liabilities related to the acquiree's employee benefit arrangements are recognised and measured in accordance with HKAS 19 Employee Benefits;

- liabilities or equity instruments related to share-based payment arrangement of the acquiree or the replacement of the acquiree's share-based payment transactions with the share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

- lease liabilities are recognised and measured at the present value of the remaining lease payments as if the acquired lease was a new lease at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at an amount equal to the lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Business combinations *(Continued)*

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests, unless as required by another standards, are measured at acquisition-date fair value except for non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at each reporting date, and changes in fair value are recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Business combinations *(Continued)*

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. The provisional amounts recognised at the acquisition date are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Revenue from contracts with customers

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

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

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

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

(b) Executive jet and super yacht management service fees are recognised when such services are rendered.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Revenue from contracts with customers *(Continued)*

Revenue from other sources

(a) Interest income

Interest income is recognised 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.

Contract assets and contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Leasing

Definition of a lease

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

The Group as lessee

For contracts entered into or modified on or after the date of initial application of HKFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease, at inception of the contract or modification date or acquisition date, as appropriate. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Leasing *(Continued)*

The Group as lessee (Continued)

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

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

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate;

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Leasing *(Continued)*

The Group as lessee (Continued)

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and

- A lease contracts modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under HKAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Leasing *(Continued)*

The Group as lessee (Continued)

Right-of-use assets *(Continued)*

When the Group obtains ownership of the underlying leased assets at the end of the lease term upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, HKFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement.

Lease modification

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Leasing *(Continued)*

The Group as lessor (Continued)

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 to allocate the consideration under the contract to each component.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised 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 outstanding in respect of the leases.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Foreign currencies *(Continued)*

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint arrangement that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Government grant

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Retirement benefits costs

Payments to/the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurements comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are not reclassified. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Group recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

Defined benefit costs are categorised as:

- service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements
- net interest expense or income; and
- remeasurements.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income 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 recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Taxation *(Continued)*

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

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

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 current tax liabilities and assets on a net basis.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities, and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Property, plant and equipment

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	4-5 years or shorter of the lease term
Furniture, fixtures and equipment	4-5 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Investment properties

Investment properties are interest in land and buildings held to earn rental income and/or for capital appreciation, rather than for use the production or supply of goods or services or for administrative purposes' or for sale in the ordinary course of business, such properties are measured initially at cost, including transaction cost. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise. Any gains or losses on the disposal of an investment property are recognised in the statement of profit or loss in the year of the disposal.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value of inventories represents the estimated selling price less the estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

In the consolidated statement of financial position, cash and bank balances comprise cash (i.e. cash on hand and demand deposits) and cash equivalents. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather for investment or other purposes.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the consolidated statement of financial position.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("**FVTOCI**"), and fair value through profit or loss ("**FVTPL**").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at amortised cost (debt instruments) *(Continued)*

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

1. Amortised cost and effective interest method

   The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

   The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

   Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at FVTOCI (debt instruments)

The Group's debt instruments are classified and measured subsequently at FVTOCI Financial assets at amortised cost (debt instruments) if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of debt instruments as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. All other changes in the carrying amount of these debts instruments are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts. When these are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Equity instruments designated as at FVTOCI *(Continued)*

Dividends from investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'investment and other income' line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition;

- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime expected credit loss ("**ECL**") for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Significant increase in credit risk *(Continued)*

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Significant increase in credit risk *(Continued)*

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 30 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 Leases.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

Measurement and recognition of expected credit losses *(Continued)*

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Modification of financial assets

A modification of a financial asset occurs if the contractual cash flows are renegotiated or otherwise modified.

When the contractual terms of a financial asset are modified, the Group assesses whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset.

For non-substantial modifications of financial assets that do not result in derecognition, the carrying amount of the relevant financial assets will be calculated at the present value of the modified contractual cash flows discounted at the financial assets' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial assets and are amortised over the remaining term. Any adjustment to the carrying amount of the financial asset is recognised in profit or loss at the date of modification.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Equity instruments *(Continued)*

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is 1) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, 2) held for trading, or 3) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL *(Continued)*

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the line item in profit or loss.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Group that are designated by the Group as at fair value through profit or loss are recognised in profit or loss.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities subsequently measured at amortised cost *(Continued)*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Modification of financial liabilities

A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Impairment on property, plant and equipment, and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, and right-of-use assets with finite useful lives 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 the impairment loss, if any. The recoverable amount of property, plant and equipment, and right-of-use assets are estimated individually. When 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the 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 had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Fair value measurement

When measuring fair value except for the Group's share-based payment transactions, leasing transactions, net realisable value of inventories for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

Related Parties Transactions

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

1. 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 Group or of a parent of the Group.

Or

3 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Related Parties Transactions *(Continued)*

2. The party is an entity where any of the following condition applies:

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

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

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

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

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

    (vi) The entity is controlled or jointly controlled by a person identified in (1).

    (vii) A person identified in (1)(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 Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

4 MATERIAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The functional currencies of the Group's overseas subsidiaries, are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

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

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

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Valuation for Inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are aged and damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs to be incurred to make the sales have increased.

The amount written off to the statement of profit or loss is the difference between the carrying value and net realisable value of the inventories. In determining whether the inventories can be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

Provision for expected credit loss on trade and bill receivables

The Group uses a provision matrix to calculate ECL for trade and bill receivables. The provision rates are based on day past due for grouping of various customers' segments that have similar loss patterns. The provision matrix is mainly based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

4 MATERIAL ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

Provision for expected credit loss on trade and bill receivables *(Continued)*

The assessment of correlation among historical observed rates, forecast economic conditions and ECLs is a significant estimate. 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 and bill receivables and is disclosed in note 23 to the consolidated financial statements.

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:

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

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2023 was HK$28,901,000, details of which are set out in note 16 to the consolidated financial statements.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. 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.

5 OPERATING SEGMENT INFORMATION

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

(i) design and sales of integrated circuits and semi-conductor parts used in industrial and household measuring tools and display products;

(ii) executive jet management services;

(iii) manufacturing and sales of yachts and other yacht related businesses ("**Yacht businesses**");

(iv) property investment; and

(v) the "Headquarter and others" segment comprises principally the Group's corporate administrative and investment functions performed by the headquarter and provision of finance lease services.

5 OPERATING SEGMENT INFORMATION *(Continued)*

These main operations are the basis on which the management identifies the primary segment information.

The management regularly reviews the basis in order to make decisions about resources to be allocated to the segment and assess its performance.

	Design and sales of integrated circuits HK$'000	Executive jet management HK$'000	Yacht businesses HK$'000	Property investment HK$'000	Headquarter and others HK$'000	Total HK$'000
Year ended 31 December 2023						
Revenue from external customers	25,198	–	88,772	–	–	113,970
Operating loss	(567)	(5,435)	(7,523)	(1,453)	(29,416)	(44,394)
Interest income	1	–	110	–	29	140
Loss before income tax	(566)	(5,435)	(7,413)	(1,453)	(29,387)	(44,254)
Other segment information:						
Depreciation of property, plant and equipment	(301)	–	–	–	(208)	(509)
Depreciation of right-of-use assets	(596)	–	(169)	–	(1,061)	(1,826)
Reversal/(provision) of impairment for inventories, net	970	–	(15,499)	–	–	(14,529)
Impairment of financial assets	(111)	(5,370)	(48)	–	(461)	(5,990)
Finance costs	(70)	–	(62)	–	(278)	(410)
Capital expenditure*	5	–	702	–	4,779	5,486
Segment assets	34,281	17,190	267,228	28,901	14,079	361,679
Segment liabilities	4,728	2,520	98,590	–	258,820	364,658

5 OPERATING SEGMENT INFORMATION *(Continued)*

	Design and sales of integrated circuits HK$'000	Executive jet management HK$'000	Yacht businesses HK$'000	Property investment HK$'000	Headquarter and others HK$'000	Total HK$'000
Year ended 31 December 2022						
Revenue from external customers	34,527	26,782	119,767	–	–	181,076
Operating profit/(loss)	1,874	(93)	23,348	–	(21,925)	3,204
Interest income	107	–	90	–	5	202
Profit/(loss) before income tax	1,981	(93)	23,438	–	(21,920)	3,406
Other segment information:						
Depreciation of property, plant and equipment	(534)	–	–	–	(489)	(1,023)
Depreciation of right-of-use assets	(703)	–	–	–	–	(703)
Reversal of impairment for inventories	778	–	–	–	–	778
Impairment of financial assets	(65)	–	(60)	–	(1,947)	(2,072)
Finance costs	(105)	–	–	–	(4,658)	(4,763)
Capital expenditure*	2,525	–	–	–	–	2,525
Segment assets	38,456	22,594	303,469	30,328	67,108	461,955
Segment liabilities	7,760	19,693	145,243	–	242,094	414,790

* Capital expenditure consists of additions to property, plant and equipment and right-of-use assets.

5 OPERATING SEGMENT INFORMATION *(Continued)*

Geographical information

(a) Revenue from external customers

	2023 HK$'000	2022 HK$'000
Hong Kong	**88,772**	146,549
The PRC	**25,198**	34,527
	113,970	181,076

The revenue information above is based on the locations of the operations of the relevant business units.

(b) Non-current assets

	2023 HK$'000	2022 HK$'000
Hong Kong	**6,005**	1,103
The PRC	**1,853**	2,851
The Island of Saipan	**28,901**	30,328
	36,759	34,282

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and equity investments designated at fair value through other comprehensive income.

5 OPERATING SEGMENT INFORMATION *(Continued)*

Information about major customers

During the years ended 31 December 2023 and 2022, revenue from customers of the corresponding years contributing over 10% of the Group's total revenue are as follows:

	2023 HK$'000	2022 HK$'000
Customer A[1]	**88,772**	–
Customer B[1]	**–**	118,381
Customer C[2]	**12,644**	–
Customer D[3]	**–**	26,782

1 The revenue was derived from the yacht businesses.
2 The revenue was derived from the design and sales of integrated circuits.
3 The revenue was derived from the executive jet management business.

6 REVENUE

	2023 HK$'000	2022 HK$'000
Revenue from contracts with customers		
Sales of integrated circuits	**25,198**	34,527
Sales of yacht	**88,772**	118,381
Executive jet management services	**–**	26,782
Super yacht management services	**–**	1,386
	113,970	181,076

6 REVENUE *(Continued)*

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2023

Segments	Design and sales of integrated circuits HK$'000	Executive jet management and Yacht businesses HK$'000	Total HK$'000
Type of goods or services			
Sales of goods	25,198	88,772	113,970
Total revenue from contracts with customers	25,198	88,772	113,970
Geographical markets			
Hong Kong	–	88,772	88,772
The PRC	25,198	–	25,198
Total revenue from contracts with customers	25,198	88,772	113,970
Timing of revenue recognition			
Goods transferred at a point in time	25,198	88,772	113,970
Total revenue from contracts with customers	25,198	88,772	113,970

6 REVENUE *(Continued)*

Revenue from contracts with customers *(Continued)*

(i) Disaggregated revenue information *(Continued)*

For the year ended 31 December 2022

Segments	Design and sales of integrated circuits HK$'000	Executive jet management and Yacht businesses HK$'000	Total HK$'000
Type of goods or services			
Sales of goods	34,527	118,381	152,908
Management services	–	28,168	28,168
Total revenue from contracts with customers	34,527	146,549	181,076
Geographical markets			
Hong Kong	–	146,549	146,549
The PRC	34,527	–	34,527
Total revenue from contracts with customers	34,527	146,549	181,076
Timing of revenue recognition			
Goods transferred at a point in time	34,527	118,381	152,908
Services provided at a point in time	–	28,168	28,168
Total revenue from contracts with customers	34,527	146,549	181,076

6 REVENUE *(Continued)*

Revenue from contracts with customers *(Continued)*

(i) Disaggregated revenue information *(Continued)*

The following table shows the movement in contract liabilities:

	Sales of goods	
	2023	2022
	HK$'000	HK$'000
Balance at 1 January	**92,028**	2,849
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(91,632)**	(2,849)
Increase in contract liabilities as a result of cash received	**450**	92,028
Balance at 31 December	**846**	92,028

	Yacht management services	
	2023	2022
	HK$'000	HK$'000
Balance at 1 January	**–**	617
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**–**	(617)
Balance at 31 December	**–**	–

6 REVENUE *(Continued)*

Revenue from contracts with customers *(Continued)*

(ii) Performance obligations

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

Sales of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery for sales of integrated circuities and 365 days from delivery for sales of yachts respectively.

Management services

Revenue is recognised in the amount that equals to the right to invoice with corresponding services rendered to the customer of the Group's performance to date on a monthly basis.

7 OTHER INCOME AND (LOSSES)/GAINS, NET

	2023 **HK$'000**	2022 HK$'000
Interest income	**140**	202
Government subsidies	**–**	383
Research and development income	**198**	175
Repair and maintenance income	**122**	–
Fair value losses on investment properties	**(1,427)**	–
Loss on disposal of property, plant and equipment	**–**	(57)
Sundry income	**117**	224
	(850)	927

8 FINANCE COSTS

	2023 **HK$'000**	2022 HK$'000
Interest on lease liabilities (note 17(b))	**410**	105
Interest on loans from a shareholder	**–**	4,658
	410	4,763

9 (LOSS)/PROFIT BEFORE TAX

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

	Notes	2023 HK$'000	2022 HK$'000
Cost of inventories sold		**66,913**	71,555
Depreciation of property, plant and equipment	15	**509**	1,023
Depreciation of right-of-use assets	17(a)	**1,826**	703
Auditor's remuneration		**1,000**	1,150
Directors' remuneration	10	**1,197**	1,997
Employee benefits expenses (excluding directors' remuneration (note 10)):			
Salaries, allowances and benefits in kind		**27,193**	28,233
Pension scheme contributions		**1,872**	2,584
		29,065	30,817
Foreign exchange difference, net		**8**	123
Provision/(reversal) of impairment for inventories, net*		**14,529**	(778)
Impairment of finance lease receivables#	21	**–**	1,947
Impairment of trade and bills receivables#	23	**5,758**	60
Impairment of other receivables#	24	**232**	65

* Included in "Cost of sales" in the consolidated statement of profit or loss.

\# Included in "Impairment of financial assets" in the consolidated statement of profit or loss.

10 DIRECTORS' REMUNERATION

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

Name of director	Fees HK$'000	Salaries, allowances and other benefits shares HK$'000	Discretionary bonuses premium HK$'000	Employer's contribution to retirement benefit contribution HK$'000	Total HK$'000
2023					
Executive directors:					
Mr. Wang Yi (note i)	186	–	–	3	189
Ms. Li Weina	390	–	–	18	408
Mr. Zhang Fumin	120	–	–	–	120
Dr. Zhang Yu (note ii)	–	–	–	–	–
	696	–	–	21	717
Independent non-executive directors:					
Dr. Song Donglin	240	–	–	–	240
Dr. Zhang Shengdong	120	–	–	–	120
Ms. Ching Ching	120	–	–	–	120
	480	–	–	–	480
	1,176	–	–	21	1,197

10 DIRECTORS' REMUNERATION *(Continued)*

Name of director	Fees HK$'000	Salaries, allowances and other benefits shares HK$'000	Discretionary bonuses premium HK$'000	Employer's contribution to retirement benefit contribution HK$'000	Total HK$'000
2022					
Executive directors:					
Mr. Wang Yi (note i)	941	–	–	15	956
Ms. Li Weina	408	–	–	18	426
Mr. Duan Hongtao (note iii)	15	–	–	–	15
Mr. Zhang Fumin	120	–	–	–	120
	1,484	–	–	33	1,517
Independent non-executive directors:					
Dr. Song Donglin	240	–	–	–	240
Dr. Zhang Shengdong	120	–	–	–	120
Ms. Ching Ching	120	–	–	–	120
	480	–	–	–	480
	1,964	–	–	33	1,997

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

Notes:

(i) Appointed on 8 March 2022 and resigned on 6 April 2023
(ii) Appointed on 6 April 2023
(iii) Resigned on 14 February 2022

11 FIVE HIGHEST PAID EMPLOYEES

None of the five highest paid employees served as directors of the Company during the year (2022: one) whose emoluments are reflected in note 10. Details of the remuneration for the year of the remaining five (2022: four) highest paid employees were as follows:

	2023 **HK$'000**	2022 HK$'000
Salaries, allowances and benefits in kind	**11,013**	6,403
Pension scheme contribution	**20**	71
	11,033	6,474

The number of non-director highest paid employees whose remuneration fell within the following bands was as follows:

	Number of individuals	
	2023	2022
Nil-HK$1,000,000	**–**	3
HK$1,000,001-HK$3,000,000	**4**	–
HK$3,000,001-HK$4,000,000	**1**	–
HK$4,000,001-HK$4,500,000	**–**	1
	5	4

During the years ended 31 December 2023 and 2022, no emolument was paid by the Group to the directors or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

12 INCOME TAX EXPENSE

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 8.25% on the first HK$2,000,000 estimated assessable profits arising in Hong Kong and 16.5% on such profits above HK$2,000,000 during the year. Taxes on assessable profits for the PRC subsidiaries are provided at the Enterprise Income Tax rate of 25% and Special Enterprise Income Tax rate of 15%.

	2023 **HK$'000**	2022 HK$'000
Current – Hong Kong	**2,019**	5,642
Over-provision in prior years – the PRC	**(68)**	–
	1,951	5,642
Deferred tax – the PRC (note 20)	**242**	–
Total tax charge for the year	**2,193**	5,642

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using domestic tax rates applicable to loss in the respective countries as follows:

	2023 **HK$'000**	2022 HK$'000
(Loss)/profit before tax	**(44,254)**	3,406
Tax calculated at domestic tax rates applicable to profit in the respective countries	**(8,551)**	319
Income not subject to tax	**(190)**	(100)
Expenses not deductible for tax	**7,679**	1,307
Over-provision in prior years	**(68)**	–
Tax losses not recognised	**3,081**	4,116
Temporary differences utilised	**242**	–
Income tax expense	**2,193**	5,642

13 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2023 (2022: Nil) nor has any dividend been proposed since the end of the reporting period (2022: Nil).

14 LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic and diluted loss per share are based on:

	2023	2022
	HK$'000	HK$'000
Loss attributable to ordinary equity holders of the Company used in the basic and diluted loss per share calculation	**(46,447)**	(2,236)

	Number of shares	
	2023	2022
	'000	'000
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	**370,245**	370,425

The Group has not issued any potentially dilutive ordinary shares during the years ended 31 December 2023 and 2022.

15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor Vehicle HK$'000	Total HK$'000
Cost				
At 1 January 2022	103	10,379	2,429	12,911
Additions	–	25	–	25
Disposals	–	(574)	–	(574)
Exchange realignment	–	(782)	(24)	(806)
At 31 December 2022 and 1 January 2023	**103**	**9,048**	**2,405**	**11,556**
Additions	**–**	**5**	**–**	**5**
Exchange realignment	**–**	**(266)**	**(8)**	**(274)**
At 31 December 2023	**103**	**8,787**	**2,397**	**11,287**
Accumulated depreciation				
At 1 January 2022	(88)	(8,273)	(878)	(9,239)
Charge for the year (note 9)	(7)	(539)	(477)	(1,023)
Disposals	–	517	–	517
Exchange realignment	–	631	18	649
At 31 December 2022 and 1 January 2023	**(95)**	**(7,664)**	**(1,337)**	**(9,096)**
Charge for the year (note 9)	**(4)**	**(300)**	**(205)**	**(509)**
Exchange realignment	**–**	**228**	**8**	**236**
At 31 December 2023	**(99)**	**(7,736)**	**(1,534)**	**(9,369)**
Net carrying amount				
At 31 December 2023	**4**	**1,051**	**863**	**1,918**
At 31 December 2022	8	1,384	1,068	2,460

16 INVESTMENT PROPERTIES

	2023 HK$'000	2022 HK$'000
Investment properties, at fair value	**28,901**	30,328

The Group's investment properties comprise a leasehold land with certain apartment buildings in the Island of Saipan. The directors have determined that the Group's investment properties are solely the leasehold land, based on the nature, characteristics and risk of each property.

The fair value of the Group's investment properties was based on the valuation performed by Graval Consulting Limited (2022: Gravel Consulting Limited), an independent professional qualified valuer, which was valued at approximately HK$28,901,000 (2022: HK$30,328,000). Each year, the management decides the appointment of the external valuer to be responsible for the valuation of the Group's investment properties. The selection criteria include market knowledge, reputation, independence and their professional standards. The management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed for financial reporting purpose.

Particular of the Group's investment properties is as follows:

Location	Use	Tenure	Attributable interest of the Group
Tract Number 21942-6 located in Capitol Hill, the Island of Saipan	Residential	Medium term lease	100%

16 INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy

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

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
2023				
Recurring fair value measurement for:				
Leasehold land	**–**	**–**	**28,901**	**28,901**
2022				
Recurring fair value measurement for:				
Leasehold land	–	–	30,328	30,328

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

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

Investment properties held by the Group	Valuation techniques	Significant unobservable inputs	Range or weighted average	Relationship of input to fair value
Tract Number 21942-6 located in Capitol Hill, the Island of Saipan	Sales comparison method	Estimated market price per square feet (US$)	162-199 (2022: 157-202)	The higher the market price, the higher the fair value

16 INVESTMENT PROPERTIES *(Continued)*

Fair value hierarchy *(Continued)*

Fair value of the Group's investment properties are generally derived using comparison approach based on market comparables of similar properties.

The sales comparison method is adopted by making reference to comparable market transactions in the assessment of the fair value of the investment properties. The approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors, including the transaction date, level of floor, environmental atmosphere, size of apartment and the like.

17 LEASES

The Group as lessee

The Group leases office premises for its daily operations. The lease term is two years, with an option to renew the lease, at which time all terms are renegotiated. Lease payments are usually increased annually to reflect current market rentals.

(a) Right-of-use assets

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

	Office premises HK$'000
As at 1 January 2022	64
Additions	2,500
Depreciation charge (note 9)	(703)
Lease modification	(430)
Exchange realignment	(165)
As at 31 December 2022 and 1 January 2023	**1,266**
Additions	**5,481**
Depreciation charge (note 9)	**(1,826)**
Exchange realignment	**(33)**
As at 31 December 2023	**4,888**

17 LEASES *(Continued)*

The Group as lessee *(Continued)*

(b) Lease liabilities

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

	2023 HK$'000	2022 HK$'000
Carrying amount at 1 January	**1,645**	70
New lease	**5,481**	2,500
Payments	**(2,006)**	(424)
Accretion of interest recognised during the year (note 8)	**410**	105
Lease modification	**–**	(430)
Exchange realignment	**(45)**	(176)
Carrying amount at 31 December	**5,485**	1,645
Analysed into:		
Current portion	**3,495**	764
Non-current portion	**1,990**	881
	5,485	1,645

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

	2023 HK$'000	2022 HK$'000
Interest on lease liabilities	**410**	105
Depreciation charge of right-of-use assets	**1,826**	703
Rental paid under operating lease	**643**	–
Total amount recognised in profit or loss	**2,879**	808

(d) Total cash outflows for leases amounted to HK$2,649,000 (2022: HK$424,000).

18 INVESTMENT IN AN ASSOCIATE

	2023 HK$'000	2022 HK$'000
Share of net assets	**7,592**	7,592
Goodwill on acquisition	**12,723**	12,723
Impairment of investment in an associate	**(20,315)**	(20,315)
	–	–

Particulars of the associate are as follows:

Company name	Particulars of issued shares held	Place of incorporation and business	Percentage of ownership interest attributable to the Group	Principal activities
Red Power Developments Limited ("**Red Power**")	Ordinary shares	British Virgin Islands/ the PRC	20.2%	Development, sales, lease and maintenance of equipment involving aviation technology and provision of air transportation services

The Group's shareholdings in the associate comprises equity shares held by the Company.

In prior year, the Company acquired 20.2% of the equity interest in Red Power and its subsidiaries (the "**Red Power Group**") by issuing 33,658,000 ordinary shares of the Company. The directors considered that the Group could only exercise significant influence over the Red Power Group based on its board composition and current shareholding, and accordingly, it was classified as an associate of the Group. Red Power Group is accounted for using equity method in the consolidated financial statement.

Red Power is an investment holding company and its subsidiaries, Liaoning Meridian Aviation Co., Ltd. (遼寧子午線航空有限公司) and Meridian Aviation Technology (Tianjin) Co., Ltd. (子午線航空技術(天津)有限公司), are engaged in the provision of air transportation services, development, sales, lease and maintenance of equipment involving the application of aviation technology in the PRC.

Since 2021, the COVID-19 pandemic and the resultant travel restrictions and quarantine requirements had dreadfully impacted the worldwide aviation industry. The Red Power Group were also victimised by these epidemic control measures, which in turn, severely affected the businesses and cash flow forecast of Red Power Group. Accordingly, the Group assessed a full impairment of the investment in an associate due to non-performance of the Red Power Group for the years ended 31 December 2022 and 2023.

19 EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 **HK$'000**	2022 HK$'000
Equity investments designated at fair value through other comprehensive income		
Unlisted investment, at fair value		
Cornerstone Securities Limited	**4,360**	3,900

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considered these investments to be strategic in nature. Details of fair value measurement is set out in note 35.

20 DEFERRED TAX ASSETS

	Provision of impairment for inventories HK$'000
At 1 January 2022	670
Exchange realignment	(57)
At 31 December 2022 and at 1 January 2023	**613**
Charge to profit or loss	**(242)**
Exchange realignment	**(17)**
At 31 December 2023	**354**

The Group had tax losses arising in Hong Kong of HK$132,525,000 (2022: HK$114,772,000) available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also had tax losses arising in the PRC of HK$1,577,000 (2022: HK$637,000) that will expire within 10 years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the management did not consider probable that taxable profits will be available against which the tax losses can be utilised.

21 FINANCE LEASE RECEIVABLE

	Minimum lease payments		Present value of minimum lease payments	
	2023 **HK$'000**	2022 HK$'000	**2023** **HK$'000**	2022 HK$'000
Finance lease receivables comprises:				
Within one year	**5,725**	5,725	**5,671**	5,671
Gross investment in lease	**5,725**	5,725	**5,671**	5,671
Less: Unearned finance income	**(54)**	(54)	**–**	–
Present value of minimum lease payments	**5,671**	5,671	**5,671**	5,671
Less: Impairment	**(5,671)**	(5,671)	**(5,671)**	(5,671)
	–	–	**–**	–

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

	2023 **HK$'000**	2022 HK$'000
At beginning of year	**5,671**	3,724
Impairment (note 9)	**–**	1,947
At end of year	**5,671**	5,671

The Group applies the HKFRS 9 general approach to measure expected credit losses which uses a 12-month basis ECL for finance lease receivables. However, when there has been a significant increase in credit risk since origination, the allowances will be based on the lifetime ECL. The Group determines the provision for ECL by exercising significant judgements to evaluate the collectability from individual finance lease receivable after taking into account their creditworthiness, whether they have financial difficulties, experience of default or delinquency in interest payment, ageing analysis and forecast of future events and economic conditions which may impact the recoverability of finance lease receivables.

22 INVENTORIES

	2023 HK$'000	2022 HK$'000
Raw materials	**2,087**	2,593
Work in progress	**141,532**	167,006
Finished goods	**5,809**	4,414
Inventories, net of provision	**149,428**	174,013

During the year, the Group made a provision of impairment for yachts of approximately HK$15,499,000 (2022: Nil) and reversal of impairment for integrated circuits of approximately HK$970,000 (2022: HK$778,000) respectively.

23 TRADE AND BILLS RECEIVABLES

	2023 HK$'000	2022 HK$'000
Trade receivables	**96,052**	140,152
Loss allowance	**(5,723)**	(60)
	90,329	140,092
Bills receivables	**3,618**	1,377
Loss allowance	**(95)**	–
	3,523	1,377
Trade and bills receivables	**93,852**	141,469

23 TRADE AND BILLS RECEIVABLES *(Continued)*

Trade receivables

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

The ageing analysis of trade receivables as at the end of the reporting period, based on invoice or delivery dates and net of loss allowance, is as follows:

	2023 **HK$'000**	2022 HK$'000
Within 1 month	**81**	102
More than 1 month but less than 3 months	**34**	119
More than 3 months	**90,214**	139,871
	90,329	140,092

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

	2023 **HK$'000**	2022 HK$'000
At beginning of year	**60**	412
Impairment (note 9)	**5,663**	60
Written off	**–**	(412)
At end of year	**5,723**	60

23 TRADE AND BILLS RECEIVABLES *(Continued)*

Trade receivables *(Continued)*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating). 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. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

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

			Past due					
	Current		1 to 3 months		Over 3 months		Total	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
Expected credit loss rate	**0.06%**	0.04%	**0.07%**	0.05%	**17.75%**	–	**5.96%**	0.04%
Gross carrying amount (HK$'000)	**28,333**	76,249	**35,715**	59,445	**32,004**	4,458	**96,052**	140,152
Expected credit losses (HK$'000)	**17**	31	**25**	29	**5,681**	–	**5,723**	60

Bills receivables

The maturity dates of the Group's bills receivables as at the end of the reporting period are as follows:

	2023 HK$'000	2022 HK$'000
Within 1 month	**546**	35
More than 1 month but less than 3 months	**1,567**	248
More than 3 months but less than 6 months	**1,410**	711
More than 6 months but within 1 year	**–**	383
	3,523	1,377

The movements in the loss allowance for impairment of bills receivables are as follow:

	2023 HK$'000	2022 HK$'000
At beginning of year	**–**	–
Impairment (note 9)	**95**	–
At end of year	**95**	–

24 PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023 HK$'000	2022 HK$'000
Deposits and other receivables	5,905	2,551
Prepayments	4,421	2,247
Loss allowance	(1,674)	(1,442)
	8,652	3,356
Less: non-current portion	1,052	228
Current portion	7,600	3,128

Deposits and other receivables mainly represent rental deposits and other receivables. An impairment analysis is performed in deposits and other receivables at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit rating can be identified, expected credit losses are estimated by a loss rate of 28% (2022: 56%) with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forward-looking information, as appropriate.

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

	2023 HK$'000	2022 HK$'000
At beginning of year	1,442	1,377
Impairment (note 9)	232	65
At end of year	1,674	1,442

25 LOANS RECEIVABLES

	2023 HK$'000	2022 HK$'000
Loans receivables, unsecured	**8,718**	8,718
Loss allowance	**(8,718)**	(8,718)
	–	–

The Group's loans receivables were stated at amortised cost and bore fixed interest rates at 5% and 10%. The credit terms of these loans receivables ranged from one to two years.

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

	2023 HK$'000	2022 HK$'000
At beginning of year and end of year	**8,718**	8,718

The Group applies general approach to measure expected credit losses which uses a 12-month basis ECL for loans receivables. The Group determines the provision for ECL by exercising significant judgements to evaluate the collectability from individual loans receivable after taking into account their creditworthiness, whether they have financial difficulties, experience of default or delinquency in interest or principal payments, ageing analysis and forecast of future events and economic conditions which may impact the recoverability of loans receivables.

The loans receivables were fully impaired as the receivables were long past due and no settlements were made during the years ended 31 December 2023 and 2022.

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 HK$'000	2022 HK$'000
Listed equity investments, at fair value	**67**	67

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

27 CASH AND CASH EQUIVALENTS

	2023 **HK$'000**	2022 HK$'000
Cash and cash equivalents	**21,657**	104,326
Cash in frozen bank account	**47,450**	–
	69,107	104,326

As at 31 December 2023, the cash and bank balances of the Group's subsidiary in the PRC denominated in Renminbi ("**RMB**") amounted to HK$68,532,000 (2022: HK$74,698,000). The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB to other currencies through banks authorised to conduct foreign exchange business. A cash deposit of approximately RMB43,437,000, equivalent to approximately HK$47,450,000, maintained in one of the bank accounts of the Group was frozen as a result of a ruling in respect of preservation of frozen accounts receivable issued by The People's Court of Longgang District, Huludao City in the PRC on 11 April 2023 (the "**Ruling**"). Such Ruling was against one of the suppliers of the Group, namely Liaoning Jinlong Mega Yacht Manufacturing Co. Limited, for its failure to repay a loan borrowed from a bank in the PRC. For more details, please refer to the announcement of the Company dated 28 April 2023 (2022: nil). As of the date of this report, the Group's legal adviser is still dealing with the above-mentioned matter, and there is no new progress for the time being.

Cash at banks and time deposits earn interest at floating rate based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

28 TRADE PAYABLES

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

	2023 **HK$'000**	2022 HK$'000
Within 1 month	**–**	–
More than 1 month but less than 3 months	**–**	–
More than 3 months	**101,089**	66,398
	101,089	66,398

The trade payables are non-interest bearing and are normally settled within 30 to 90 days.

29 OTHER PAYABLES AND ACCRUALS

	2023 HK$'000	2022 HK$'000
Accruals	**5,809**	9,938
Contract liabilities (note (a))	**846**	92,028
Other payables (note (b))	**5,479**	5,744
	12,134	107,710

Notes:

(a) Details of contract liabilities are as follows:

	2023 HK$'000	2022 HK$'000
Short-term advances received from customers		
Sales of yachts	**–**	89,120
Sales of integrated circuits	**846**	2,908
	846	92,028

Contract liabilities include short-term advances received from design and sales of integrated circuits. The decrease in contract liabilities in 2023 was mainly due to the recognition of revenue from sales of yacht during the year.

The following table shows how much of the revenue recognised relates to sales of yachts, sales of integrated circuits and yacht management services and how much relates to performance obligations that were satisified in prior periods.

For the year ended 31 December 2023	**Sales of yachts**	**Sales of integrated circuits**	**Yacht management services**
Revenue recognised that was included in the contract liability balance at the beginning of the year	**89,120**	**2,511**	**–**

For the year ended 31 December 2022	Sales of yachts	Sales of integrated circuits	Yacht management services
Revenue recognised that was included in the contract liability balance at the beginning of the year	–	2,849	617

(b) The other payables are unsecured, interest-free and have an average term of one month.

30 AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and repayable on demand.

31 SHARE CAPITAL

	Number of shares '000	Ordinary shares HK$'000	Share premium HK$'000	Total HK$'000
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	**370,245**	**37,025**	**122,468**	**159,493**

The total authorised number of ordinary shares is 1,000,000,000 shares (2022: 1,000,000,000 shares) with a par value of HK$0.1 per share (2022: HK$0.1 per share). All issued shares are fully paid.

32 OTHER RESERVES

	Share premium HK$'000	Exchange reserve HK$'000	Fair value reserve HK$'000	Capital reserve HK$'000	Total HK$'000
At 1 January 2022	122,468	2,289	(14,580)	9,524	119,701
Other comprehensive loss for the year:					
Changes in fair value of equity investments designated at fair value through other comprehensive income	–	–	(4,520)	–	(4,520)
Exchange differences on translation	–	(12,972)	–	–	(12,972)
Total comprehensive loss for the year	–	(12,972)	(4,520)	–	(17,492)
Deemed capital contribution arising from loans from a shareholder	–	–	–	4,343	4,343
At 31 December 2022	122,468	(10,683)	(19,100)	13,867	106,552

32 OTHER RESERVES *(Continued)*

	Share premium HK$'000	Exchange reserve HK$'000	Fair value reserve HK$'000	Capital reserve HK$'000	Total HK$'000
At 31 December 2022 and 1 January 2023	**122,468**	**(10,683)**	**(19,100)**	**13,867**	**106,552**
Other comprehensive income/(loss) for the year:					
Changes in fair value of equity investments designated at fair value through other comprehensive income	–	–	460	–	460
Exchange differences on translation	–	(4,157)	–	–	(4,157)
Total comprehensive (loss)/income for the year	**–**	**(4,157)**	**460**	**–**	**(3,697)**
At 31 December 2023	**122,468**	**(14,840)**	**(18,640)**	**13,867**	**102,855**

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of HK$5,481,000 (2022: HK$2,500,000) and HK$5,481,000 (2022: HK$2,500,000) respectively.

(b) Changes in liabilities arising from financing activities

2023

	Lease liabilities HK$'000
At 1 January 2023	1,645
Changes from financing cash flows	(2,006)
Foreign exchange movement	(45)
New lease entered	5,481
Interest expense	410
At 31 December 2023	5,485

33 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

(b) Changes in liabilities arising from financing activities *(Continued)*

2022

	Loans from a shareholder HK$'000	Lease liabilities HK$'000
At 1 January 2022	194,333	70
Changes from financing cash flows	–	(424)
Foreign exchange movement	–	(176)
Deemed capital contribution arising from loans from a shareholder	(4,343)	–
New lease entered	–	2,500
Lease modification	–	(430)
Interest expense	4,658	105
Transfer to amount due to a shareholder	(194,648)	–
At 31 December 2022	–	1,645

34 RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group entered into the following material transactions with related parties during the year.

(a) Outstanding balances with related parties

Balances with related parties are included in note 30 to the consolidated financial statements.

(b) Key management compensation

Key management includes directors (executive and non-executive) and a senior management. The compensation paid or payable to key management for employee services is shown below:

	2023 HK$'000	2022 HK$'000
Salaries and allowances and benefits in kind	**5,144**	6,242

35 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Other than the equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss, all financial assets and liabilities of the Group as at 31 December 2023 and 2022 were financial assets at amortised cost and financial liabilities at amortised cost, respectively.

Management has assessed that the fair values of cash and cash equivalents, finance lease receivable, loans receivables, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, lease liabilities, trade and other payables, amount due to a shareholder approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the board of directors and the Audit Committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the board of directors. The valuation process and results are discussed with the Audit Committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity investments are based on quoted market prices.

The fair values of unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the management to determine comparable public companies (peers) based on industry and size and to calculate an appropriate market multiple, i.e. price-to-earning ratio of 7.93 (2022: price-to-earning ratio of 7.5) for each comparable company identified. The multiple is calculated by dividing the market capitalisation of the comparable company by earnings (2022: earnings). The change in selected market multiple is due to change in the financial performance of the investee and for which the management's specialist considered appropriate to best reflect the fair value of the investment. The market multiple is then discounted for considerations such as illiquidity of 11.4% (2022: 11.4%) and size differences of 0% (2022: 0%) between the comparable companies based on company-specific facts and circumstances. The directors of the Company believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period. The management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model, the higher the market multiple and lower discounted multiples will result in higher fair value of the investments.

35 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Equity investments designated at fair value through other comprehensive income	**–**	**–**	**4,360**	**4,360**
Financial assets at fair value through profit or loss	**67**	**–**	**–**	**67**

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Equity investments designated at fair value through other comprehensive income	–	–	3,900	3,900
Financial assets at fair value through profit or loss	67	–	–	67

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2022: Nil).

35 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

The movements in fair value measurements within Level 3 during the year are as follows:

	2023 HK$'000	2022 HK$'000
Equity investments at fair value through other comprehensive income		
At 1 January	3,900	8,420
Total gain/(loss) recognised in other comprehensive income	460	(4,520)
At 31 December	4,360	3,900

The Group did not have any financial liabilities measured at fair value as at 31 December 2023 and 2022.

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

2023

	Financial assets at amortised cost HK$'000	Financial assets at fair value through profit or loss HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Equity investments designated at fair value through other comprehensive income	–	–	4,360	4,360
Trade and bills receivables	93,852	–	–	93,852
Financial assets included in other receivables and other assets	4,231	–	–	4,231
Financial assets at fair value through profit or loss	–	67	–	67
Cash and cash equivalents	69,107	–	–	69,107
	167,190	67	4,360	171,617

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial instruments by category *(Continued)*

Financial assets *(Continued)*

2022

	Financial assets at amortised cost HK$'000	Financial assets at fair value through profit or loss HK$'000	Financial assets at fair value through other comprehensive income HK$'000	Total HK$'000
Equity investments designated at fair value through other comprehensive income	–	–	3,900	3,900
Trade and bills receivables	141,469	–	–	141,469
Financial assets included in other receivables and other assets	2,253	–	–	2,253
Financial assets at fair value through profit or loss	–	67	–	67
Cash and cash equivalents	104,326	–	–	104,326
	248,048	67	3,900	252,015

Financial liabilities

	Financial liabilities at amortised cost	
	2023 HK$'000	2022 HK$'000
Lease liabilities	**5,485**	1,645
Trade payables	**101,089**	66,398
Other payables and accruals	**11,288**	15,682
Amount due to a shareholder	**237,530**	232,644
	355,392	316,369

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors

The Group's principal financial instruments are used to raise financing for the Group's operations and investments. The Group has various other financial assets and liabilities such as loans and trade and bills receivables, other receivables and other assets, finance lease receivable, financial assets at fair value through profit or loss, cash and cash equivalents, and financial liabilities included in trade payables, other payables and accruals, lease liabilities and amount due to a shareholder which arise directly from its operations. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk. The board of directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group operates in both the PRC and Hong Kong. Most of the transactions for the PRC reporting entity is denominated in RMB, whereas that for Hong Kong reporting entities are denominated in HK$. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The management is responsible for managing the net position in each foreign currency. The Group currently does not have a foreign currency hedging policy. As the assets and liabilities of the PRC reporting entity is mainly denominated in RMB, its functional currency, the directors are of the opinion that the volatility of their profits against changes in exchange rates of foreign currencies would not be significant. Accordingly, no sensitivity analysis is performed.

Moreover, as the assets and liabilities of the HK reporting entities are mainly denominated in HK$, its functional currency, the directors are of the opinion that the Group does not have significant foreign exchange risk. Accordingly, no sensitivity analysis is performed.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing financial assets and interest-bearing financial liabilities. Interest-bearing financial assets are the interests on loans receivables and deposits with banks. Interests on deposits with banks based on deposit rates offered by bank while interests on loans receivables are based on fixed rates. Interest-bearing financial liabilities are lease liabilities which the interest are based on fixed rates. As at 31 December 2023 and 2022, the Group had no significant interest rate risk as the Group had no significant interest-bearing assets or liabilities.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group was exposed to equity price risk arising from financial assets at fair value through profit or loss as at 31 December 2023 and 2022. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the end of the reporting period.

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors *(Continued)*

Equity price risk *(Continued)*

The following table demonstrates the sensitivity to every 10% (2022: 10%) change in the fair values of the listed equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investment HK$'000	Decrease/ (increase) in (loss)/profit before tax HK$'000
2023		
Investment listed in:		
Hong Kong – financial assets at fair value through profit or loss	**67**	**7**
2022		
Investment listed in:		
Hong Kong – financial assets at fair value through profit or loss	67	7

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group's credit risk is primarily attributable to the finance lease and loans and trade receivables. In order to minimise the credit risk, the Group has established policies and systems for monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow up action is taken to recover overdue debts. In addition, the management reviews the recoverable amounts of finance lease, loans and trade receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors *(Continued)*

Credit risk *(Continued)*

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of those instruments.

The credit risk for cash and cash equivalents is considered minimal as such amounts are placed with banks with high credit ratings.

At the end of the reporting period, the Group had concentrations of credit risk as 99% (2022: 99%) of the Group's trade receivables were due from the Group's top five largest customers. The Group mitigates its concentration risk from its major customers by doing businesses with a number of customers for the same or similar products and the Group actively monitors the credit quality of its customers and adjusts the credit limits granted to the customers should their credit quality deteriorate or when there are signs of slow payment of outstanding receivables. Further quantitative data in respect of the Group's exposure to credit risk arising from these receivables are disclosed in notes 21, 23, 24 and 25 to the consolidated financial statements.

Maximum exposure and year-end staging

The tables below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2023

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Finance lease receivable	–	–	5,671	–	5,671
Trade and bills receivables*	3,618	–	–	96,052	99,670
Financial assets included in other receivables and other assets					
– Normal**	4,231	–	–	–	4,231
– Doubtful**	–	232	1,442	–	1,674
Cash and cash equivalents	69,107	–	–	–	69,107
Loans receivables	–	–	8,718	–	8,718
	76,956	232	15,831	96,052	189,071

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors *(Continued)*

Credit risk *(Continued)*

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000	Total HK$'000
Finance lease receivable	–	–	5,671	–	5,671
Trade and bills receivables*	1,377	–	–	140,152	141,529
Financial assets included in other receivables and other assets					
– Normal**	2,253	–	–	–	2,253
– Doubtful**	–	83	1,359	–	1,442
Cash and cash equivalents	104,326	–	–	–	104,326
Loans receivables	–	–	8,718	–	8,718
	107,956	83	15,748	140,152	263,939

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 23 to the consolidated financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets have a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 23 to the consolidated financial statements.

Liquidity risk

Internally generated cash flows and the loans from a shareholder are the general sources of funds to finance the operations of the Group. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Group aims to maintain sufficient bank deposits to meet its short-term cash requirements. The Group's liquidity risk management includes diversifying the funding sources.

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2023		
	On demand or within one year HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**101,089**	**–**	**101,089**
Other payables and accruals	**11,288**	**–**	**11,288**
Lease liabilities	**3,495**	**1,990**	**5,485**
Amount due to a shareholder	**237,530**	**–**	**237,530**
	353,402	**1,990**	**355,392**

	2022		
	On demand or within one year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	66,398	–	66,398
Other payables and accruals	15,682	–	15,682
Lease liabilities	764	881	1,645
Amount due to a shareholder	232,644	–	232,644
	315,488	881	316,369

Capital management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities expressed as a percentage of the total equity and liabilities. As at 31 December 2023, the gearing ratio was nil (2022: 90%). Management considers a ratio of not more than 30% as optimal.

37 STATEMENT OF FINANCIAL POSITION

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2023 **HK$'000**	2022 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**896**	1,067
Interests in subsidiaries	**210,787**	239,853
Total non-current assets	**211,683**	240,920
CURRENT ASSETS		
Prepayments, other receivables and other assets	**2,689**	194
Cash and cash equivalents	**242**	29,230
Total current assets	**2,931**	29,424
CURRENT LIABILITIES		
Other payables and accruals	**2,844**	9,439
Amount due to a shareholder	**214,975**	232,644
Total current liabilities	**217,819**	242,083
NET CURRENT LIABILITIES	**(214,888)**	(212,659)
NET (LIABILITIES)/ASSETS	**(3,205)**	28,261
CAPITAL AND RESERVES		
Share capital	**37,025**	37,025
Other reserves (note)	**294,701**	294,701
Accumulated losses (note)	**(334,931)**	(303,465)
(Capital deficiency)/total equity	**(3,205)**	28,261

Zhang Fumin
Director

Li Weina
Director

37 STATEMENT OF FINANCIAL POSITION *(Continued)*

Note: Reserve movement of the Company

		Other reserves			
	Accumulated losses HK$'000	Share premium HK$'000	Contributed surplus HK$'000	Capital reserve HK$'000	Total HK$'000
At 1 January 2022	(253,744)	122,468	137,800	30,090	290,358
Loss for the year	(49,721)	–	–	–	–
Deemed capital contribution arising from loans from a shareholder	–	–	–	4,343	4,343
At 31 December 2022	(303,465)	122,468	137,800	34,433	294,701
Loss for the year	**(31,466)**	**–**	**–**	**–**	**–**
At 31 December 2023	**(334,931)**	**122,468**	**137,800**	**34,433**	**294,701**

38 EVENT AFTER THE REPORTING PERIOD

On 22 December 2023, the Company entered into a placing agreement with a placing agent pursuant to which the placing agent conditionally agreed to place the placing shares of up to 74,049,028 new shares of the Company to be not less than six placees at the placing price of HK$0.56 per placing share. The net proceeds of approximately HK$40,223,000 from the placing will be used for general working capital and business development. The placing was completed on 17 January 2024.

Pursuant to a special resolution passed at the annual general meeting of the Company held on 11 January 2024, the shareholders of the Company approved to change the name of the Company from "Balk 1798 Group Limited" to "Sky Blue 11 Company Limited" and the secondary name of the Company from「巴克1798集團有限公司」to「天璽曜11有限公司」. The change of the Company's name became effective on 17 January 2024.

39 APPROVAL OF THE FINANCIAL STATEMENTS

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