宏信建發
CDHORIZON

2023
ANNUAL REPORT

Incorporated in the Cayman Islands with limited liability

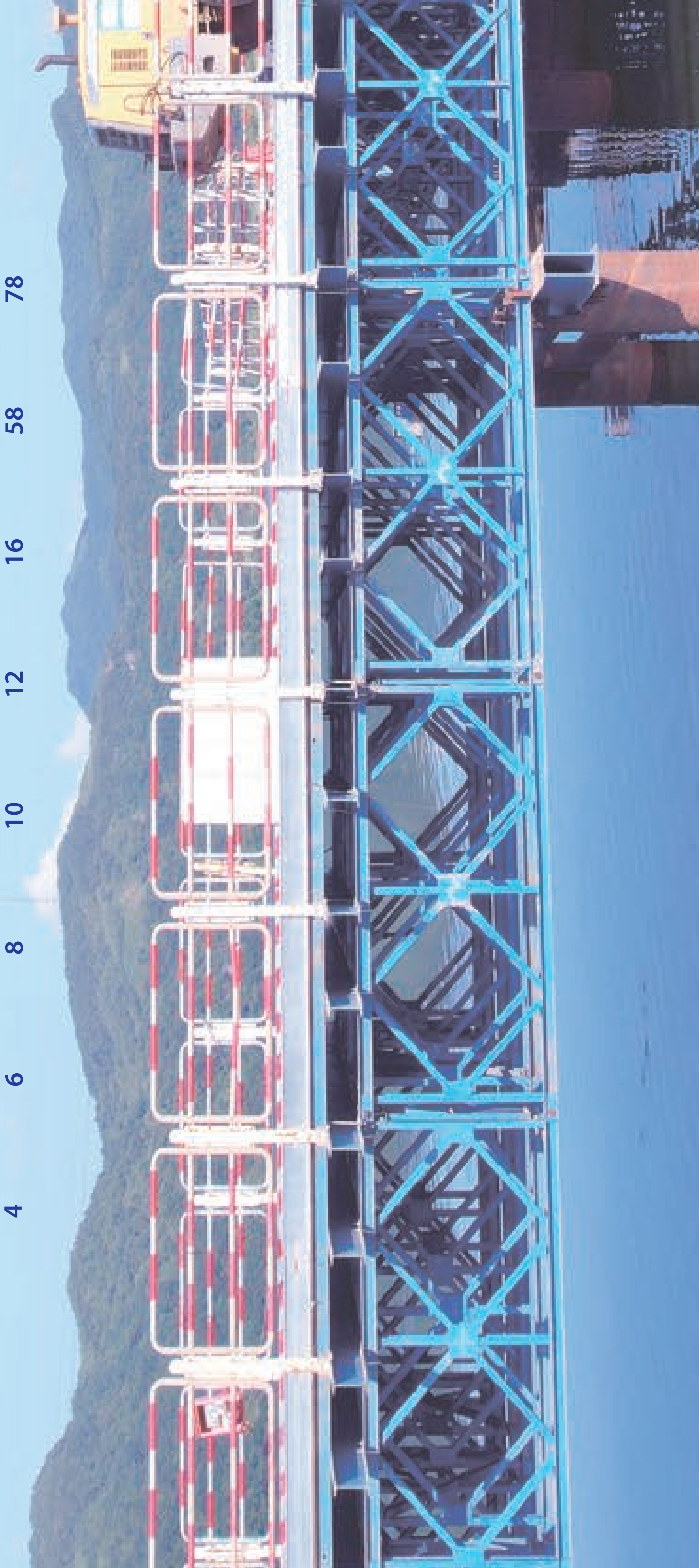
Stock Code: 09930.HK

宏信建發
CDHORIZON

Leverage the momentum and move forward firmly

Build cohesion to achieve long-term vision

Contents



CORPORATE INFORMATION

BOARD

Chairman and Non-Executive Director

Mr. KONG Fanxing (孔繁星先生)

Executive Directors

Mr. PAN Yang (潘陽先生)
(Chief Executive Officer)

Mr. TANG Li (唐立先生)
(Co-Chief Financial Officer)

Non-executive Directors

Mr. XU Huibin (徐會斌先生)

Mr. HE Ziming (何子明先生)

Mr. LI Qianjin (李前進先生)

Ms. GUO Lina (郭麗娜女士)

Independent non-executive Directors

Mr. LIU Jialin (劉嘉凌先生)

Mr. XU Min

Ms. JIN Jinping (金錦萍女士)

Mr. SUM Siu Kei (岑兆基先生)

COMPOSITION OF COMMITTEES

Audit Committee

Mr. XU Min *(Chairman)*

Ms. JIN Jinping (金錦萍女士)

Mr. SUM Siu Kei (岑兆基先生)

Nomination Committee

Ms. JIN Jinping (金錦萍女士)
(Chairwoman)

Mr. LIU Jialin (劉嘉凌先生)

Mr. XU Huibin (徐會斌先生)

Remuneration Committee

Ms. JIN Jinping (金錦萍女士)
(Chairwoman)

Mr. LIU Jialin (劉嘉凌先生)

Ms. GUO Lina (郭麗娜女士)

Environmental, Social and Governance Committee

Mr. SUM Siu Kei (岑兆基先生)
(Chairman)

Mr. HE Ziming (何子明先生)

Mr. XU Min

COMPANY SECRETARY

Mr. CHIU Ming King (趙明璟先生)

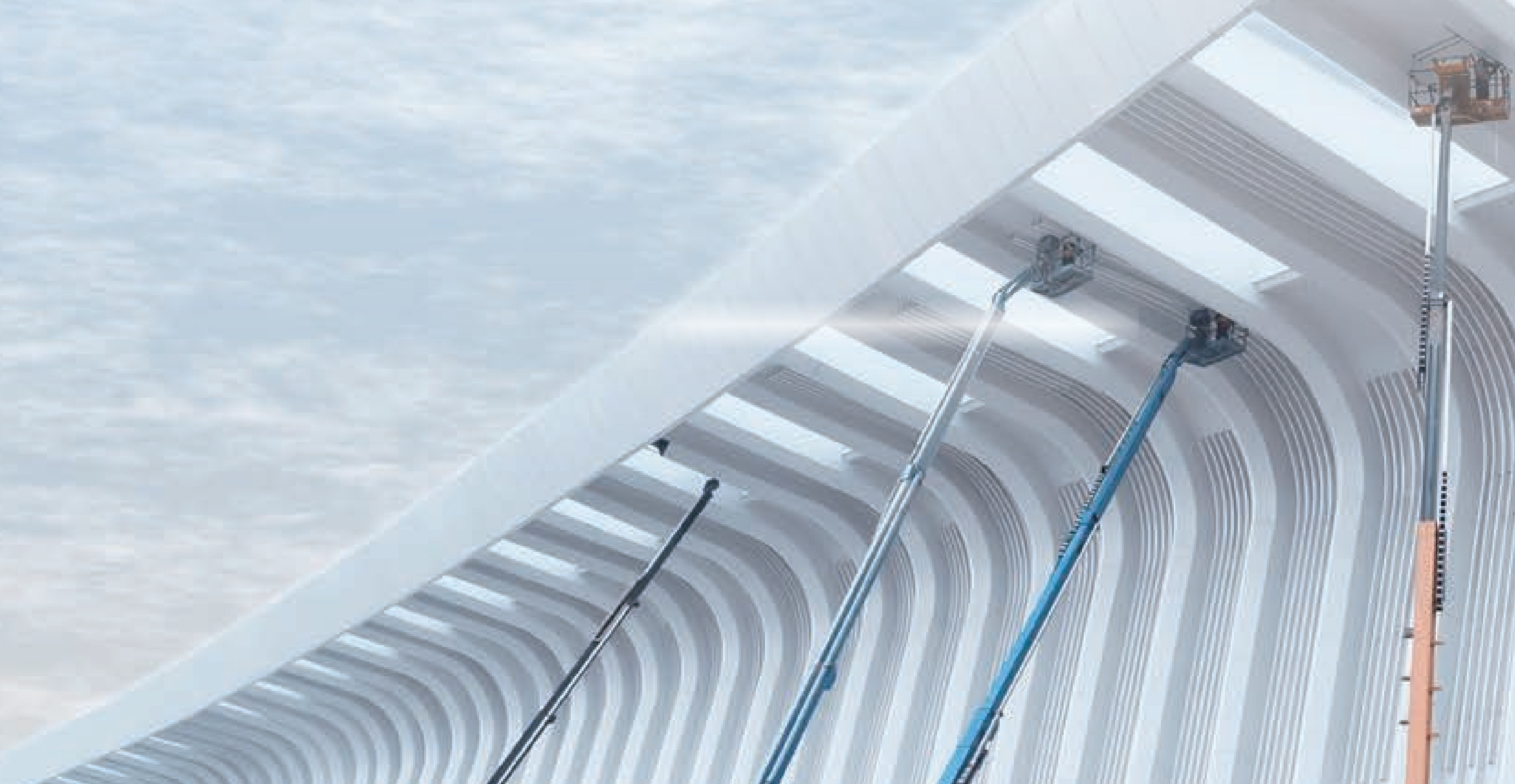
AUTHORISED REPRESENTATIVES

Mr. PAN Yang (潘陽先生)

Mr. CHIU Ming King (趙明璟先生)

REGISTERED OFFICE

P.O. Box 31119 Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman
KY1-1205
Cayman Islands



CORPORATE INFORMATION

HEADQUARTERS

No. 5, 6-610, Building 2
Minghai Center, 200 Xichang Road
Pilot Free Trade Zone
(Dongjiang Bonded Port Zone)
Tianjin
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1901, 19/F, Lee Garden One
33 Hysan Avenue
Causeway Bay
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKS

China Construction Bank Corporation

Bank of Communications

AUDITOR

Ernst & Young

(Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance)

LEGAL ADVISER

Baker & McKenzie

COMPLIANCE ADVISER

UOB Kay Hian (Hong Kong) Limited

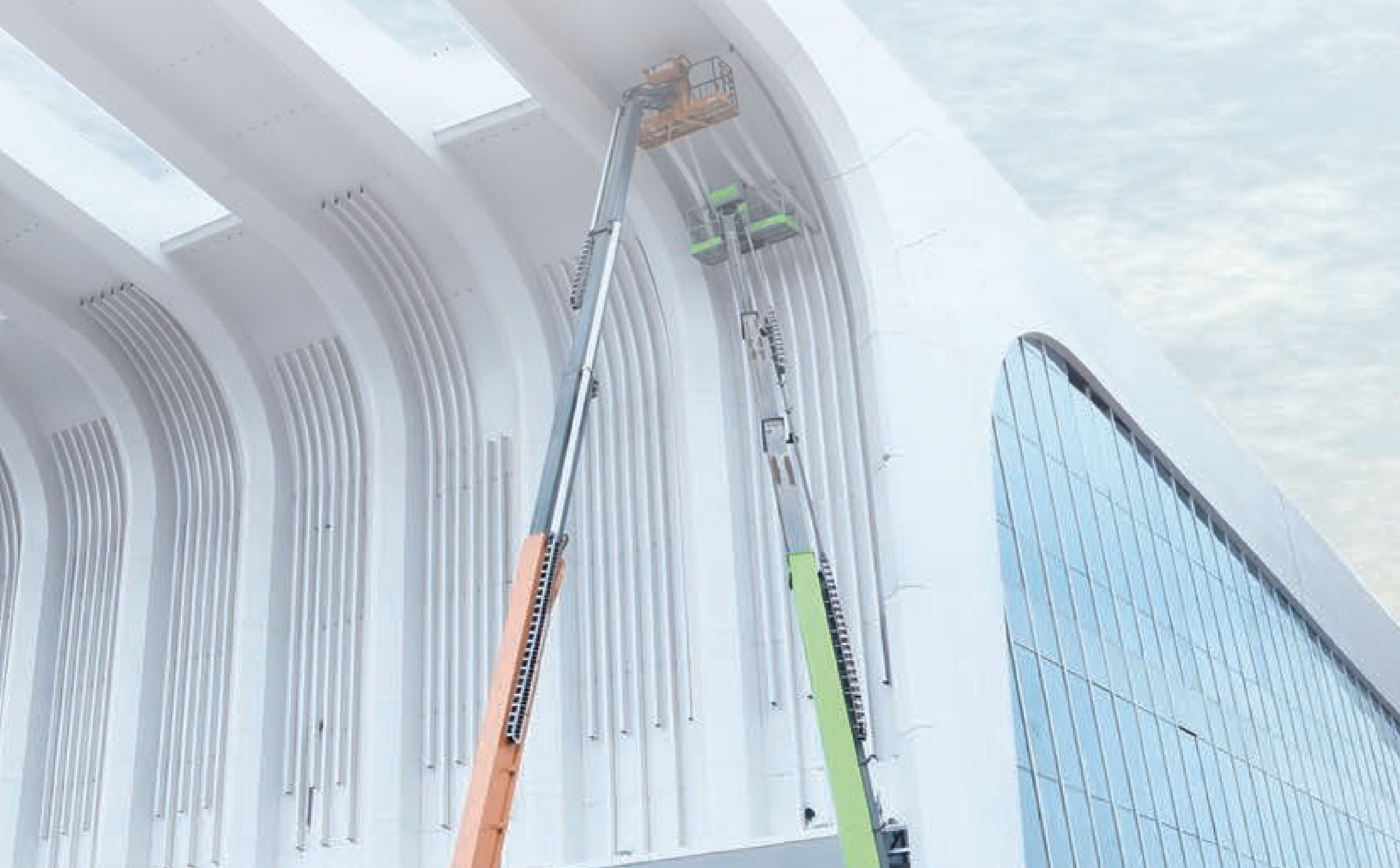
COMPANY WEBSITE

www.hongxinjianfa.com

STOCK CODE

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited

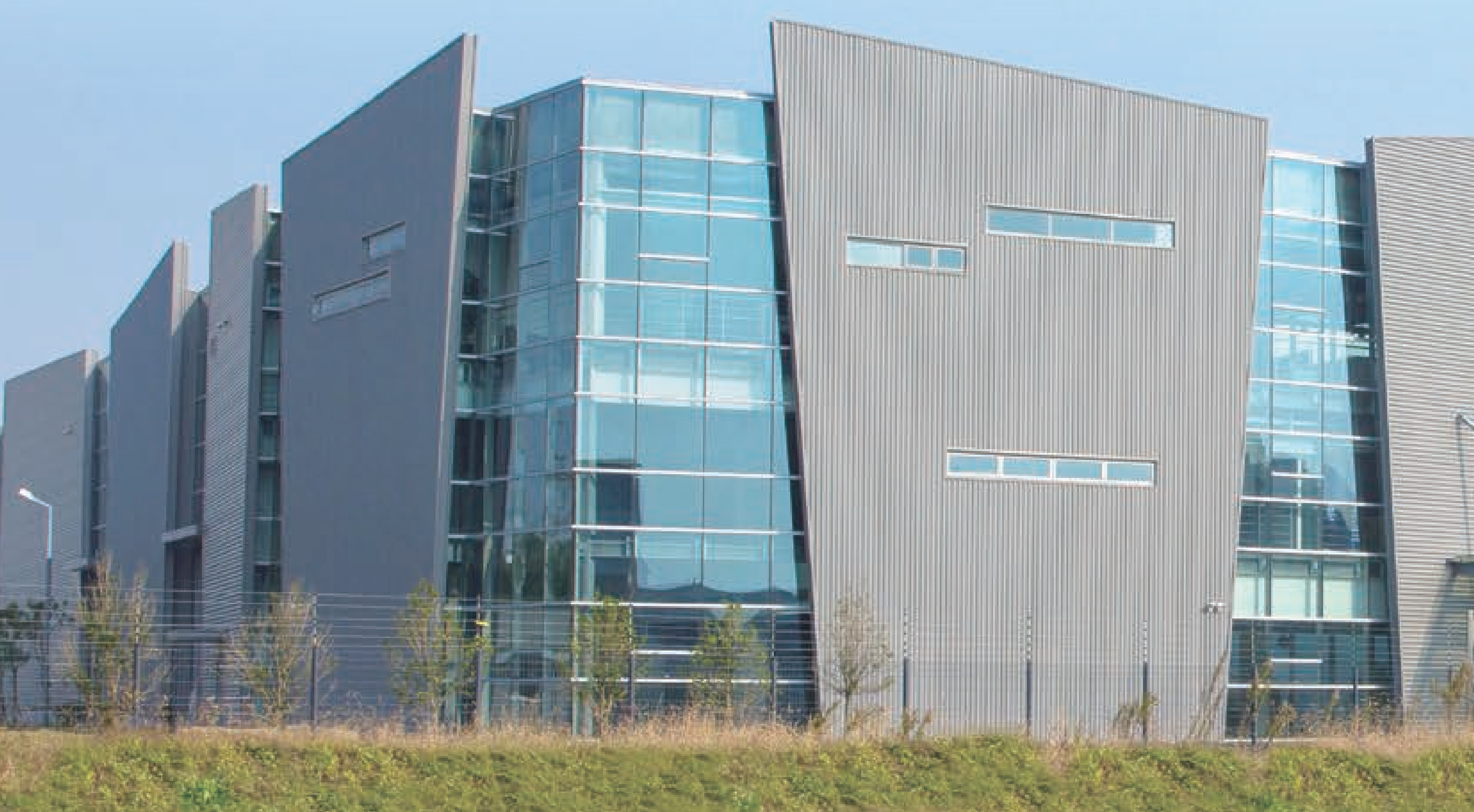
Stock code: 9930



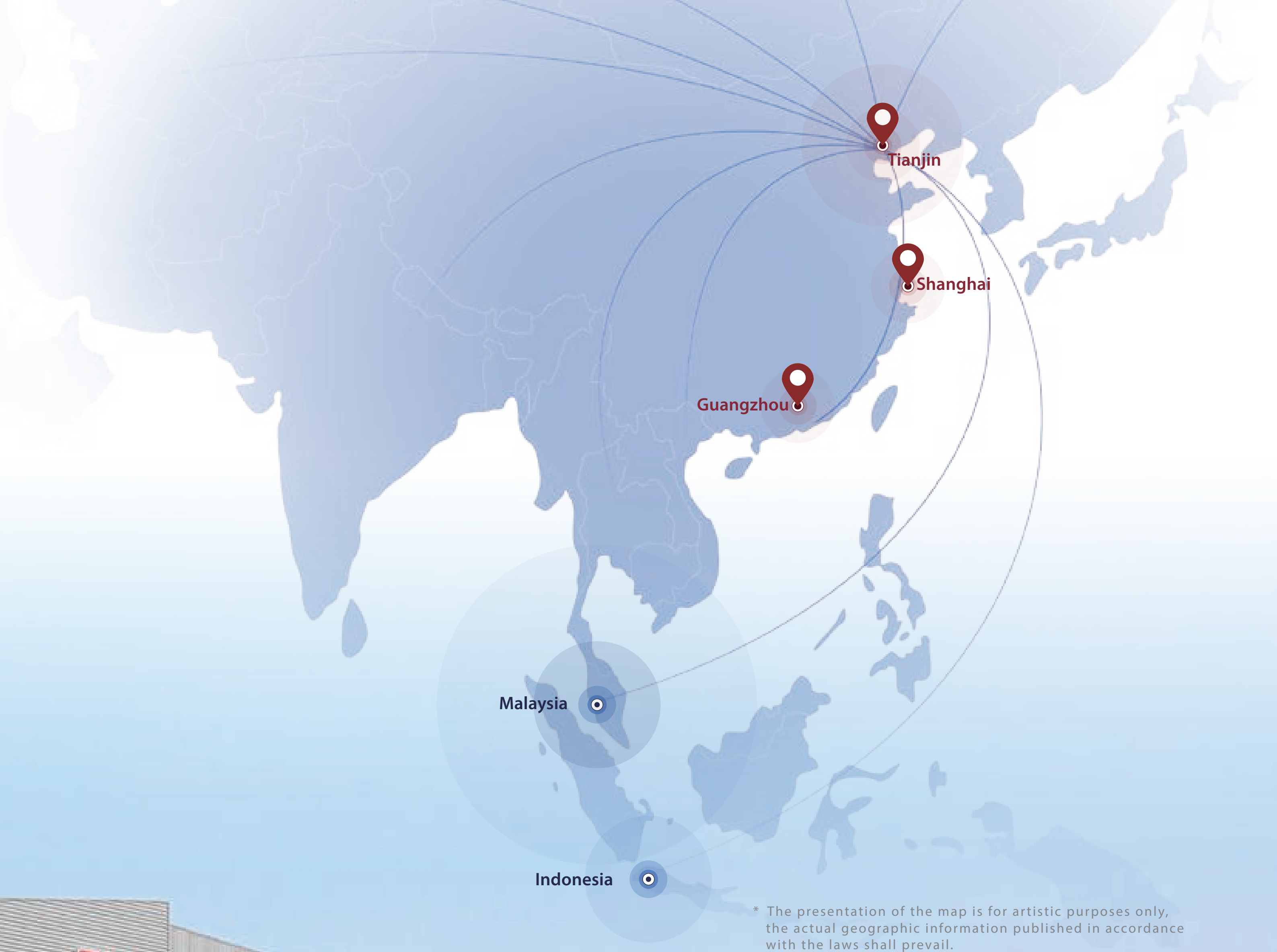
COMPANY PROFILE

Horizon Construction Development Limited (the "Company" or "Horizon Construction Development") and its subsidiaries (collectively the "Group") is one of the leading equipment operation service providers in China, with comprehensive equipment offerings and strong service capacities. Major brands of the Group include Horizon Construction Development (宏信建發), Horizon Equipment (宏信設備) and Hongjin Equipment (宏金設備). The Group's leading market position and brand recognition are reflected in the numerous awards the Group has received. In addition, the Group is one of the leaders in aerial work platform equipment operation, neo-excavation support system operation and neo-formwork system operation service markets. The Group ranked the top in terms of equipment volume of aerial work platform, neo-excavation support system and neo-formwork system as at 31 December 2023. The Group believes that its comprehensive and multi-dimensional services covering the full cycle of projects and leveraging the synergies among its various product lines and diversified service categories enable the Group to enhance our market competitiveness and customer stickiness. The Group has fostered a diverse, blue chip, loyal and high-quality customer base, the number of our outlets ranked first in China among all equipment operation service providers, and our proven digitalization capabilities continuously enhance the operational efficiency and customer service capabilities of the Group.

The Company's shares have been officially listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange" or the "Hong Kong Stock Exchange") since 25 May 2023 (the "Listing Date"). The shares of Far East Horizon Limited ("Far East Horizon"), the immediate holding company of the Company and a company incorporated in Hong Kong, have been listed on the Main Board of the Stock Exchange (stock code: 3360).



INTERNATIONAL BUSINESS NETWORK



* The presentation of the map is for artistic purposes only, the actual geographic information published in accordance with the laws shall prevail.

CHAIRMAN'S STATEMENT

Horizon Construction Development Limited
Chairman of the Board and Non-executive Director

KONG Fanxing

Dear Shareholders,

In 2023, endeavoring to adapt to the changes in the external market environment, Horizon Construction Development, with the will to implement its established strategies, took the lead in starting overseas operations ahead of its domestic peers while maintaining its leading position in China's market. The Company also spared no efforts to enhance the efficiency of its internal management and operation management. Alongside the growth in revenue and total profit, the Company maintained a positive cash flow with an increasingly sound financial position and enhanced risk management capacity. The primary operating platform under the Group was rated "AAA" by China Chengxin International Credit Rating Co., Ltd. in the second half of 2023. The value created by Horizon Construction Development, a new public company entering the Hong Kong capital markets is very interlinked with the recognition and support of all Shareholders. On behalf of the Board of Directors, the management and all staff, I would like to hereby express our heartfelt thanks to all Shareholders.

Looking back on 2023, the equipment operation service industry in which Horizon Construction Development operates has witnessed structural adjustments, and large enterprises have accelerated to increase their market share. As a leading comprehensive service enterprise for equipment operation in China, Horizon Construction Development not only continuously solidity its foundation, but also effectively enhances its leading position in the changing environment. As at the end of 2023, the number of aerial work platforms under the management of Horizon Construction Development reached 177,600, ranking top 1 in Asia and top 3 in the world in terms of scale[1]; and the total material assets under management were approximately 2.28 million tons, maintaining the leader position in domestic market. Meanwhile, the number of outlets of Horizon Construction Development in Chinese mainland increased to 489, and one outlet was newly established in Hong Kong, which helped Horizon Construction Development take deep roots and serve the needs of customers in the real economy.

Keeping its leading role in China's market, Horizon Construction Development tapped into its operational capabilities and integrated industry resources when expanding into new overseas markets for new growth opportunities. The primary footholds where Horizon Construction Development executes its overseas strategy are in regions such as Southeast Asia, the Middle East and North Africa, as equipment services are in high demand in these markets. As at the end of 2023, Horizon Construction Development has already instituted its operations in the Southeast Asian market by establishing outlets in Malaysia and Indonesia, and also conducted research, exploration and planning in Thailand, Vietnam, Middle East and North Africa regions at the same time.

[1] According to the "2023 Access 50 of Global Aerial Work Machinery Leasing" issued by international industry evaluation agency, KHL Group

CHAIRMAN'S STATEMENT

In addition, over the past year, Horizon Construction Development has explored new equipment offerings, upgraded and perfected its service system and cooperated with more customers through expanding the breadth of its business, and the number of customers served accumulatively has increased to approximately 232,000. Under the requirements of "New Products, New Customers and New Markets (新產品、新客戶、新市場)", Horizon Construction Development will also further enrich its equipment offerings and application scenarios, so that more customers can receive the support from the one-stop comprehensive equipment operation services of the Company, thus promoting the sustainable growth of business potential.

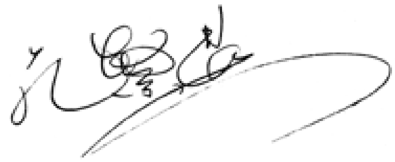
Meanwhile, in terms of business model, Horizon Construction Development has made breakthroughs by devoting great energy to creating a business structure featured "light-asset" in recent years, serving as a supplement to the traditional leasing model. Over the past year, partners led by financial leasing companies developed in-depth cooperation with Horizon Construction Development. As at the end of 2023, 56,696 aerial work platforms were operated in the entrusted management model, which I believe demonstrates the partners' trust in the operation and management capability of Horizon Construction Development. This new business model helped us realize a diversified source of revenue as well as save and reduce capital expenditure.

In conclusion, Horizon Construction Development created positive financial return for Shareholders in 2023: the Company realized revenue of RMB9,610 million for the year, representing a year-on-year increase of 22.0% as compared with the previous year; the profit attributable to holders of ordinary shares for the year amounted to RMB960 million, representing a year-on-year increase of 44.9% as compared with the previous year; and the return on average total assets and return on average equity reached 3.1% and 11.0%, respectively.

Horizon Construction Development has been constantly improving corporate governance and the construction of an effective Board system, promoting the standardized operation of the Board, and giving full play to the scientific decision-making function of the Board, aiming to lay a foundation for building good governance to return its shareholders. The Company convened a total of three regular Board meetings in Hong Kong during the period from the Listing Date to the end of 2023 to discuss and consider significant proposals, concerning the development needs of Horizon Construction Development and in the interests of all Shareholders. At the same time, all the professional committees under the Board fully performed their respective rights and obligations granted by the Board, and thus effectively protected the interests of all Shareholders.

The year 2023 marks the entry of Horizon Construction Development into the Hong Kong capital market. Over ten years ago, Horizon Construction Development was incubated out of Far East Horizon's understanding and capture of the development opportunities and trends in the equipment operation industry, and has since become a witness to, a participant in, and a promoter of the development of the industry. Moving forward, the Company will expand overseas markets with steady steps, enhance its global competitiveness, and seek more development opportunities, building on its maintenance of leadership in China's market. Looking forward to 2024, I believe that Horizon Construction Development will stand firm on the development direction and make steady progress, go all out to create value for Shareholders and society, and continue its journey to become a global leader in comprehensive equipment operation.

Horizon Construction Development Limited
Chairman of the Board and Non-executive Director
KONG Fanxing



CHIEF EXECUTIVE OFFICER'S STATEMENT

Horizon Construction Development Limited
Executive Director and Chief Executive Officer

PAN Yang

Dear Shareholders,

Over the previous year under review, in the face of a complex and volatile situation, China's economy has saw that its annual GDP increased by 5.2% year on year and the total output value of the national construction industry reached RMB31,591.2 billion, representing a year-on-year increase of 5.8%.

In 2023, holding onto its strategies, Horizon Construction Development achieved robust growth. Following the strategic guidance of "Finance + Industry" provided by Far East Horizon, a controlling shareholder, and leveraging the support of the capital market, the Group continually grew the size of its assets under management, cultivated diverse capabilities of the service and repair team, and built its core competencies through delivering differentiated services, which will lay a solid foundation for the asset management of the platform. On the basis of the Group's comprehensive equipment solutions featuring services covering the full cycle of projects and various types of equipment, Horizon Construction Development promoted the business transformation pursuing "New Products, New Customers and New Markets (新產品、新客戶、新市場)" in an effort to further tap into new markets and form another growth curve. While cultivating the domestic market in depth, the Group has quickened its pace to establish a presence in overseas markets such as Southeast Asia by giving full play to its industry capabilities and its industry resources benefits, which have taken us years to acquire. During the year, the Group made a breakthrough progress by establishing 4 overseas service outlets in Malaysia and Indonesia, with the total number of its global service outlets reaching 494. After years of development, the Group has built a customer base boasting of diversity, stability, and high quality. The number of its customers further increased from approximately 158,000 at the end of 2022 to approximately 232,000 at the end of 2023.

Under the guidance of its development strategy, the Group provides comprehensive equipment operation services encompassing lease, engineering and sales, in pursuit of achieving synergy among these segments. The Group recorded a total revenue of RMB9,610 million for the year, representing an increase of 22.0% as compared with the same period of the previous year. In terms of operating leasing services business, the Company's equipment management scale has been constantly expanding, and the annual occupancy rate of the core products has further increased. In 2023, the operating leasing services achieved a revenue of RMB5,140 million, accounting for 53.5% of the revenue. In terms of engineering and technical services, benefiting from the Group's continuous investment in products and technologies innovation, the engineering and technical solutions of Horizon Construction Development have been more recognized and favored by the industry, with a total of more than 1,500 newly successful bidding projects for the year and the accumulative number of service and engineering projects exceeding 3,500. In 2023, the engineering and technical services achieved a revenue of RMB2,960 million, accounting for 30.8% of the revenue, representing an increase of 3.7 percentage points as compared with the same period of the previous year. In terms of platform and other services, leveraging on the comprehensive equipment operation experience accumulated over the years, the Group has gradually built an equipment service platform for the industry. As at the end of 2023, the Group operated 56,696 aerial work platforms under the entrusted management model, representing an increase of 167.9% as compared with the end of the previous year in terms of scale; in 2023, the revenue from platforms and

CHIEF EXECUTIVE OFFICER'S STATEMENT

other services was RMB1.51 billion, accounting for 15.7% of the revenue, representing an increase of 8.7 percentage points as compared with the same period of the previous year. Horizon Construction Development has promoted diversified development in well-ordered steps and always devotes itself to improving operational efficiency and enriching the operating connotation of comprehensive equipment operation services.

In 2023, with continuously optimized profit, revenue, and finance structures, when realizing an increase of 22.0% in revenue, Horizon Construction Development recorded an adjusted profit for the year of RMB1.04 billion, representing an increase of 10.7% as compared with the same period of the previous year. As at the end of 2023, the total assets of the Group were RMB31.24 billion, representing an increase of 3.1% as compared with the end of the previous year, and the growth rate of profit and revenue for the year was far higher than that of assets. With a steady increase in return on assets, in 2023, the Group recorded a return on average total assets of approximately 3.1%, representing an increase of 0.8 percentage point as compared with the previous year, and recorded a return on average equity of approximately 11.0%, representing an increase of 0.5 percentage point as compared with the previous year. The investment returns of the Shareholders constantly improved, and earnings per share increased to RMB0.32 for the year from RMB0.23 in the previous year. The Group also maintained sufficient liquidity, generating operating cash flows of RMB3.95 billion in 2023, representing a significant increase of 40% from RMB2.82 billion for the same period of the previous year. Therefore, the funds of the Group were further replenished and the financial structure became stronger.

The year 2023 marks the 13th anniversary of the founding of Horizon Construction Development and is a remarkable year in the development history of the Group. During the year, the Company was officially listed on the Main Board of the Hong Kong Stock Exchange and entered the international capital market. During the year, Shanghai Horizon Equipment & Engineering Co., Ltd., a subsidiary of the Company, successfully obtained an "AAA" rating from China Chengxin International Credit Rating Co., Ltd. With the support of all sectors of society, Horizon Construction Development ranked 1st in China and 14th in the world in the IRN100 list, which has further consolidated its industry-leading position.

In 2024, Horizon Construction Development will, aiming at its development goals, continue to deepen its presence in the domestic market. By collaborating with upstream and downstream business partners in the industry to jointly explore new service offerings and new service scenarios, Horizon Construction Development will keep track of the changes in market demands and create value for customers. Meanwhile, it will step up its efforts to expand overseas markets, extend its business network, strengthen local collaboration and seize the window of opportunity arising from the growth in the market of Southeast Asia to form the second growth curve of the Group. Horizon Construction Development will continuously scale up regional coverage, service network and tiered operation and expedite the process of digitalization and intelligentization, thereby improving the operation and management efficiency. Committed to becoming a trustworthy comprehensive equipment operation service provider, Horizon Construction Development will grow as China's industry leader into a world-class enterprise.

Looking forward, we will boost confidence in development and forge ahead with resolve to promote high-quality development of the Group and achieve leapfrog in our development, thereby creating greater value for Shareholders and society.

Finally, I would like to express my heartfelt thanks to all Shareholders, customers, business partners, people from all walks of life and all employees of the Company who care about and support Horizon Construction Development. Let's work together to create a better future!

Horizon Construction Development Limited
Executive Director and Chief Executive Officer
PAN Yang

BUSINESS OVERVIEW

	For the year ended 31 December			
	2023	2022	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Operating results				
Total revenue	**9,610,581**	7,877,646	6,141,168	3,663,595
Operating lease services	**5,139,275**	5,189,949	4,463,348	2,484,554
Engineering and technical services	**2,964,591**	2,136,630	1,519,288	1,062,760
Platform and other services	**1,506,715**	551,067	158,532	116,281
Cost of sales	**(5,849,180)**	(4,744,640)	(3,295,231)	(2,015,234)
Operating lease services	**(2,848,976)**	(2,870,719)	(2,091,079)	(1,185,393)
Engineering and technical services	**(2,098,931)**	(1,496,266)	(1,076,646)	(756,813)
Platform and other services	**(901,273)**	(377,655)	(127,506)	(73,028)
Gross profit and gross profit margin	**3,761,401**	3,133,006	2,845,937	1,648,361
Operating lease services	**2,290,299**	2,319,230	2,372,269	1,299,161
Gross profit margin	**44.6%**	44.7%	53.1%	52.3%
Engineering and technical services	**865,660**	640,364	442,642	305,947
Gross profit margin	**29.2%**	30.0%	29.1%	28.8%
Platform and other services	**605,442**	173,412	31,026	43,253
Gross profit margin	**40.2%**	31.5%	19.6%	37.2%
Profit before tax	**1,226,523**	893,804	902,499	641,507
Adjusted profit before tax (a non-HKFRS measure)(1)	**1,307,089**	1,172,015	973,084	652,362
Profit for the year attributable to holders of ordinary shares of the Company	**962,407**	664,335	709,638	448,373
Adjusted profit for the year (a non-HKFRS measure)(2)	**1,042,973**	942,546	780,223	504,217
Basic earnings per share (RMB)	**0.316**	0.235	0.261	0.179
Diluted earnings per share (RMB)	**0.316**	0.235	0.261	0.179
Profitability Indicators				
Return on average equity(3)	**11.0%**	10.5%	12.5%	16.7%
Return on average total assets(4)	**3.1%**	2.3%	3.3%	3.6%
Gross profit margin	**39.1%**	39.8%	46.3%	45.0%
EBITDA margin (a non-HKFRS measure)(5)	**46.6%**	51.8%	52.1%	51.4%

BUSINESS OVERVIEW

	31 December 2023	31 December 2022	31 December 2021	31 December 2020
	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities				
Total assets	**31,236,775**	30,288,394	26,960,606	15,639,203
Total liabilities	**20,459,108**	23,616,202	20,949,645	10,337,454
Interest-bearing bank and other borrowings	**17,339,232**	21,212,114	17,697,766	7,817,513
Gearing ratio[(6)]	**65.5%**	78.0%	77.7%	66.1%
Total equity	**10,777,667**	6,672,192	6,010,961	5,301,749
Equity attributable to holders of ordinary shares of the Company	**10,777,667**	6,672,192	6,010,961	5,301,323
Net assets per share (RMB)[(7)]	**3.37**	2.36	2.12	2.12

The amendments to HKAS 12 – Income Taxes decreased the equity and equity attributable to holders of ordinary shares of the Company by RMB3,043,000 and RMB816,000 at the beginning of 2023 and 2022 respectively, and decreased the profit for the year, adjusted profit for the year (a non-HKFRS measure) and profit for the year attributable to holders of ordinary shares of the Company by RMB13,487,000 and RMB2,227,000 respectively for the years ended 31 December 2023 and 2022.

BUSINESS OVERVIEW

Notes:

(1) Adjusted profit before tax (a non-HKFRS measure) = profit before tax for the year + listing expenses + interest expenses and foreign exchange gains or losses from redemption liabilities on ordinary shares.

(2) Adjusted profit for the year (a non-HKFRS measure) = profit for the year + listing expenses + interest expenses and foreign exchange gains or losses from redemption liabilities on ordinary shares.

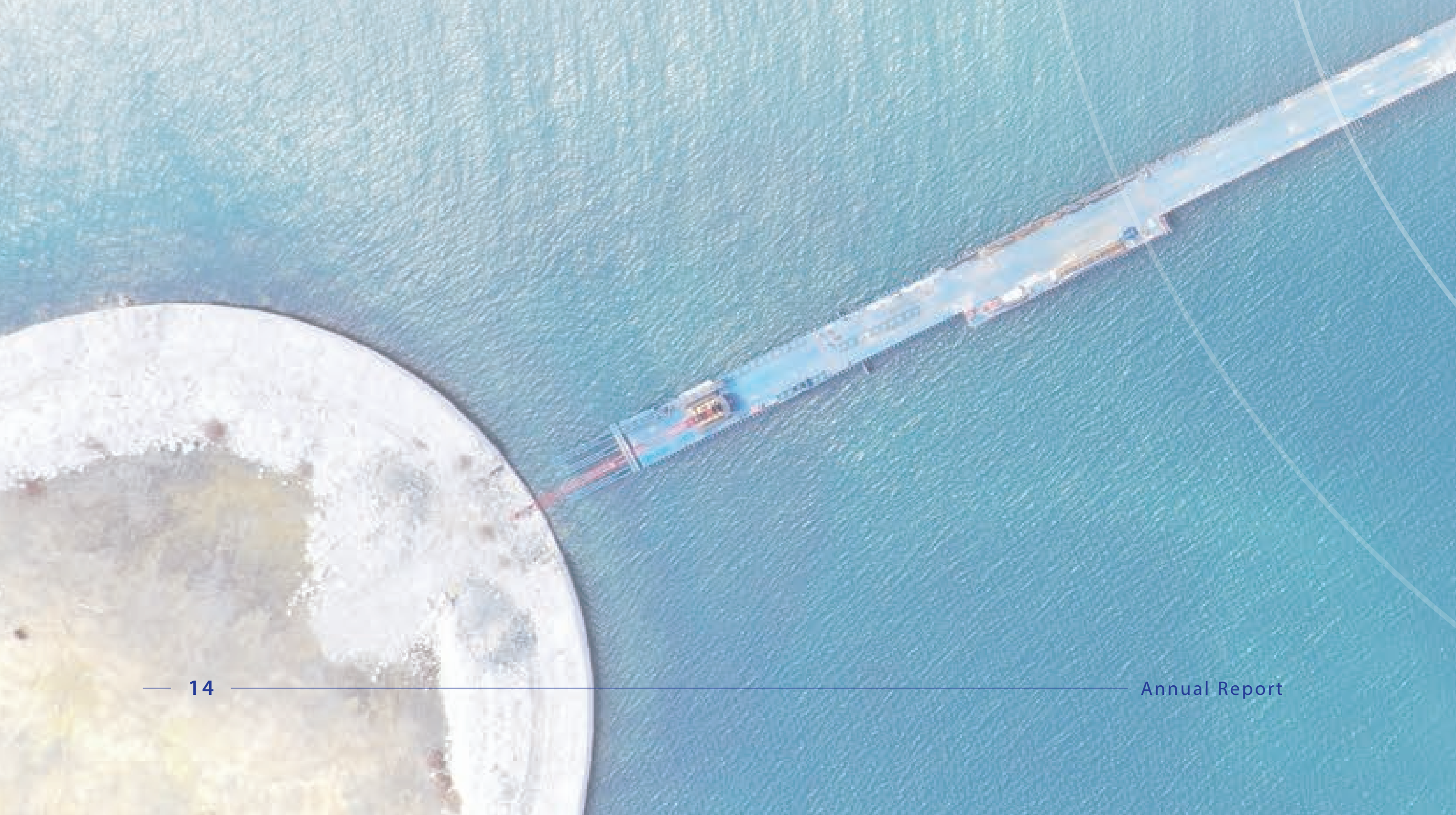
(3) Return on average equity = profit for the year attributable to holders of ordinary shares of the Company/average balance of total equity at the beginning and the end of the year attributable to holders of ordinary shares of the Company.

(4) Return on average total assets = profit for the year attributable to holders of ordinary shares of the Company/average balance of total assets at the beginning and the end of the year.

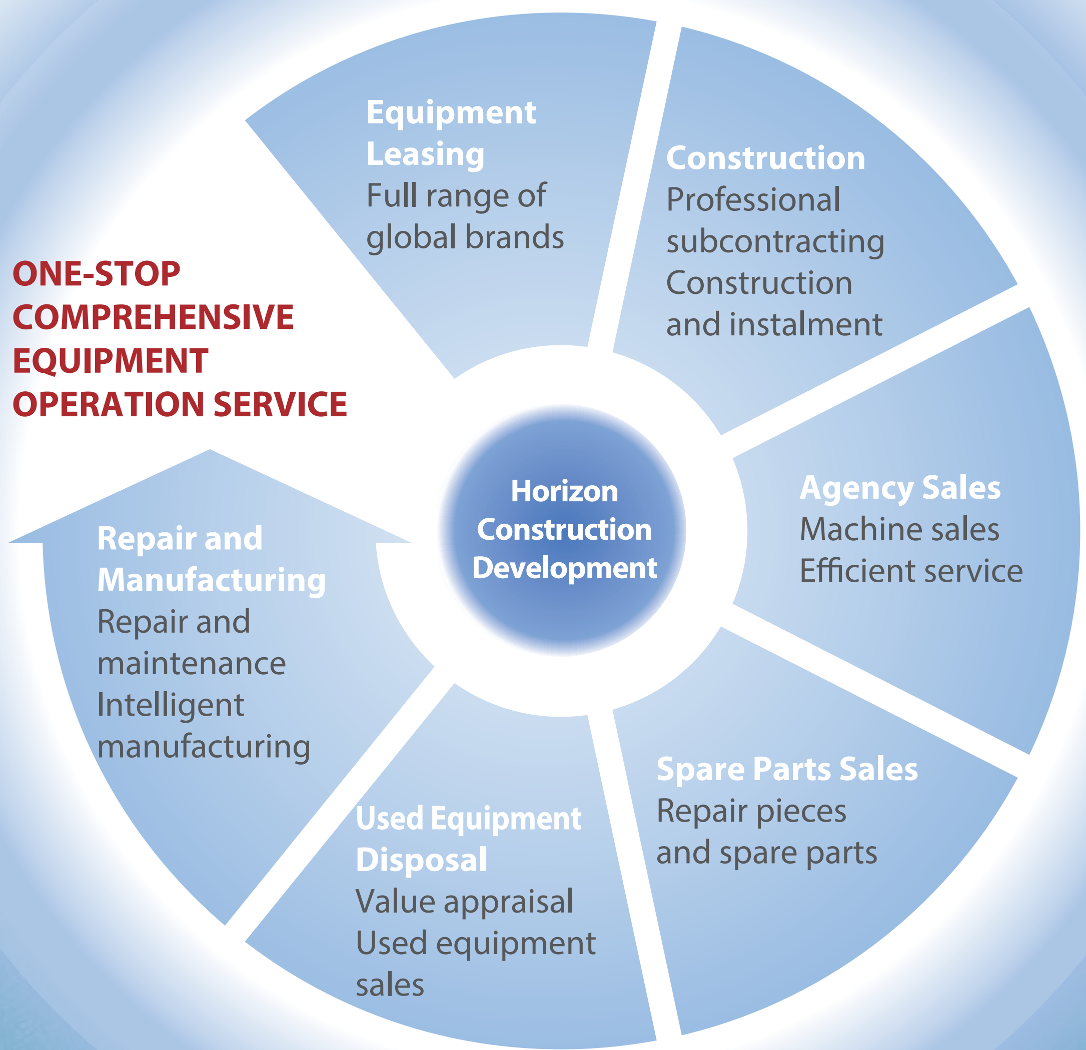
(5) EBITDA margin (a non-HKFRS measure) = EBITDA (a non-HKFRS measure)/total revenue for the year; EBITDA (a non-HKFRS measure) = profit for the year – bank interest income + income tax expenses + finance costs + depreciation and amortization.

(6) Gearing ratio = total liabilities at the end of the year/total assets at the end of the year.

(7) Net assets per share = total equity at the end of the year attributable to holders of ordinary shares of the Company/number of ordinary shares outstanding at the end of the year.



ONE-STOP COMPREHENSIVE EQUIPMENT OPERATION SERVICE



MANAGEMENT DISCUSSION AND ANALYSIS

1. INDUSTRY ENVIRONMENT AND THE COMPANY'S SOLUTIONS

1.1 National and Regional Environment

Chinese mainland:

In 2023, China's GDP recorded a year-on-year increase of 5.2%, and the investment in the manufacturing industry increased by 6.5% year-on-year, with a growth rate accelerated by 0.2 percentage point. The Government Work Report issued in early 2023 puts forward the implementation of industrial foundation reconstruction projects and major technology and equipment research projects to promote the development of high-end, intelligent and green manufacturing; at the end of the year, the Central Economic Work Conference also emphasized again the need to continue centering the economic work on promoting high-quality development, leading the construction of modernized industrial system by technology innovation, and acting on the high-quality development of the key industry chains of the manufacturing industry. A series of policies released by the Chinese government have promoted and supported the high-quality development of the manufacturing industry, boosting the business investment confidence. In terms of regions, the investment growth rate in manufacturing industry of the northern and central and western regions is high, for example, manufacturing industry sectors, such as new energy, new materials, modern equipment manufacturing, in Inner Mongolia rapidly developed this year. Driven by the manufacturing industry associated with the new energy sector, the investment growth rate in manufacturing industry of Sichuan, Anhui and other central and western cities is also prominent; the eastern and southern regions continue the transformation and upgrading of new productive forces, take the lead in fostering a number of emerging industries, and Guangdong, Jiangsu, Zhejiang and other developed provinces continue to solidify their position.

MANAGEMENT DISCUSSION AND ANALYSIS

The investment in infrastructure increased by 5.9% year-on-year, with a growth rate accelerated by 0.1 percentage point. The impact of the epidemic in the first half of the year gradually subsided, the construction progress of existing projects that were not completed due to repeated reoccurrence of the epidemics in the fourth quarter of 2022 was accelerated at the beginning of 2023; in the second half of the year, the central government issued an addition of RMB1 trillion of special treasury bond for 2023, being used in eight major areas, including specific disaster mitigation and prevention construction, all of the additional treasury bonds were arranged to the local through transfer payments, to further enhance the construction of infrastructure and stimulate investment in infrastructure. In addition to traditional infrastructures such as railroads, highways and bridges, investment in infrastructure has also shifted to new infrastructure projects such as industrial internet, 5G base stations and big data centers, and the investment and construction of "new infrastructures" has become a new driving force to support stable economic growth.

In 2023, the comprehensive competitiveness of China's construction machinery products in the global market continues to improve, the overseas market has gradually become an important driving force for the growth of China's construction machinery market.

Overseas Regions:

Benefiting from the stabilization of economic environment, the abundance of labor force and the inflow of external investment, Southeast Asia's economic growth has remained steady. According to the forecast of the International Monetary Fund, the consolidated GDP growth rate of the ten ASEAN countries in 2023 reached 4.2%, which was significantly higher than that of the global economy. With continued growing demand for fixed asset investment and construction behind the Southeast Asia's robust economic development, the equipment operation service market in Southeast Asia is in a golden period of growth that will bring high returns during the growing period. The specific market conditions in certain Southeast Asian countries are as follows:

MANAGEMENT DISCUSSION AND ANALYSIS

The Malaysia's economy is growing steadily, by virtue of its stable domestic situation and sound business environment, where the construction industry continues to develop, and the engineering machinery leasing and sales market sees a huge potential. Malaysia has a wide range of external investments, with Japanese companies investing additional USD300 million in 2023, many European and American companies investing in new data centers and other projects in Malaysia, and Chinese-funded new energy enterprises and automotive enterprises acquiring land to build plants in Malaysia; meanwhile, internal investment and development plans are also intensively initiated, with Malaysia's National Housing Plan (NHP) (《國家住房計劃(NHP)》) planning to build one million units of affordable housing within ten years, and the 12th Malaysia Plan (《第12個馬來西亞計劃》) focusing on strengthening the construction of highway and railroad networks connecting the airports, ports, industrial zones and major city centers.

In 2022, the output value of construction industry in Indonesia amounted to RMB886.666 billion, which is the highest in Southeast Asia, the Indonesia's government has set a target of completing an infrastructure investment of USD350 billion by 2025, including the construction of roads, railways, ports, airports and other sectors, the acceleration of Indonesia's capital relocation plan is also expected to continue to drive demand for infrastructure, and the economic development corridors constructed by the "Sea Toll Road (海運高速公路)" and the National Strategic Projects (PNS) are expected to create new growth points. In terms of industry, the Indonesia's government has made the manufacturing industry as the core of its strategic planning, and at the same time, the government has given certain policy support to mineral exploitation, and the growth rate is expected to reach 15% in the next five years.

In 2022, the output value of construction industry in Vietnam amounted to approximately RMB172.9 billion, representing a year-on-year increase of 20%, and at the same time, Chinese-funded enterprises are cooperating on many projects in Vietnam, with CSCEC (中建), CREC (中鐵), MCC (中冶), CEEC (中能建) and private general contractors having projects under construction and investment in Vietnam. Vietnam's infrastructure is relatively lagging behind, and the main theme is to make up for the shortcomings. In 2023, the output value of construction industry increased by 7.06% year-on-year, and the newly-built expressway mileage during the year reached a record high of 475 kilometers, and 14 key transportation projects, including various sub-projects of the North-South Expressway Project Phase 1, were successfully completed in 2023, which further increased the expressway mileage in Vietnam to 1,892 kilometers. In early 2024, a number of highway construction projects were launched, paving the way for additional construction investment in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

1.2 Company Business Environment

The Group operates in the machinery leasing and service industry, with its main business covering the integrated operations services of products such as aerial work platform equipment, neo-excavation support system and neo-formwork system. Meanwhile, in 2023, the Group also launched the promotion and operation of a variety of products such as telescopic forklifts, forklift trucks, automobile cranes, glass installation tool and truck-mounted high-altitude vehicles. With the aging population, rising labor costs, emphasis on safety production and energy saving and environmental protection requirements, the penetration rate of engineering machinery equipment leasing services in China will continue to grow. According to the Frost & Sullivan Report, the penetration rate of engineering machinery leasing services in China amounted to 58.6% in 2023, and it is expected to reach 63% by 2026, the trend of growth of the engineering machinery leasing market in China will remain unchanged. In addition, one of the main service scenarios of engineering machinery is the construction industry, the total output value of construction industry in China amounted to RMB31.59 trillion, representing a year-on-year increase of 5.8%, and the construction industry enterprises in China have signed new contracts amounting to RMB35.6 trillion this year, demand from all sectors of the construction industry promoted the continuous development of the equipment leasing and operation service industry.

Leasing demand for aerial work platforms continues to grow. The aerial work platform is a branch of engineering machinery equipment. In addition to traditional construction, the application of aerial work platforms continues to extend to external wall cleaning for buildings, media advertising board installation, large-scale event planning and filming, management and maintenance of large-scale shopping malls, supermarkets, and warehousing and logistics enterprises, landscape repair and maintenance, as well as other types of auxiliary aerial work. In recent years, driven by the gradual slowdown of population growth, increased labor costs, enhanced safety awareness, improved construction efficiency requirements, diversified construction sites and other factors, the application fields of aerial work platforms continue to expand, their popularity and market acceptance continue to increase, while the current penetration rate of aerial work platform leasing in Chinese market is much lower than that in the mature markets such as Europe and the U.S. In the future, with the deepening understanding of the practicality and economy of aerial work platforms in all industries, the demand for the equipment will be further increased. The growth trend of the market size of aerial work platform leasing remained unchanged. According to IPAF Rental Market Report 2023, the volume of global aerial work platform leasing market amounted to approximately 2.2 million sets in 2022, representing a year-on-year increase of 10%, among which, the volume of the U.S. leasing market amounted to 794,300 sets, representing a year-on-year increase of 10%, and the volume of the Chinese leasing market amounted to 448,400 sets, representing a year-on-year increase of 36%. The volume per capita of aerial work platforms in China is much lower than that in developed countries such as the U.S. With the continued growth of domestic leasing demand for aerial work platforms, the market size of the aerial work platform leasing in China will continue to expand in the future.

The market penetration of neo-excavation support system is expected to continue to increase. The neo-excavation support system mainly refers to the steel structures support system, which is replacing the traditional concrete or cement traditional support system, providing customers with benefits such as safe and green construction environment, accelerated construction progress, and construction cost reduction. According to the Guiding Opinions on Promoting the Reduction of Construction Waste (《推進建築垃圾減量化的指導意見》) issued by the Ministry of Housing and Urban-Rural Development of the PRC in 2020, local government authorities must establish and gradually improve the working mechanism of the reduction of construction waste and strengthen the source control of construction waste. Driven by the policy, the neo-excavation support system is expected to continue to replace the traditional concrete or cement support system, and the market penetration continues to increase.

MANAGEMENT DISCUSSION AND ANALYSIS

The ringlock scaffold in the neo-formwork system has the characteristics of high safety, labor saving, convenient installation and disassembly, consumption saving and overall aesthetic appearance. It can be widely used in the fields such as the construction of infrastructures, plants and houses. At present, the neo-formwork system lease market is currently in an increase-slowdown cycle. According to the data from China Construction Materials Rental Contractor Association, in 2023, the operation and development index of the ringlock scaffold industry in China was below the boom-bust line (less than 50%) for most of the time. The ringlock scaffold lease market is facing challenges of price competition and lengthened capital return cycle as a whole, and the market landscape is looking for further player exit and consolidation.

In 2024, driven by various favourable factors, the neo-formwork system market is expected to recover: firstly, the business activity index indicates that expansion of construction industry accelerated. The National Bureau of Statistics data showed that in December 2023, the business activity index of construction industry was 56.9%, representing an increase of 1.9 percentage points over the previous month, and some enterprises accelerated their construction progress before the Spring Festival holiday, and the level of prosperity in the construction industry picked up. From the perspective of market expectations, the business activity expectation index is 65.7%, which has always been in the high boom zone since 2023, and the construction industry enterprises have stable and positive expectations for market development. Secondly, a unified national market is being built to promote new industrialization. At the end of 2023, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Transport, and the State Administration for Market Regulation put forward a proposal on the construction of a unified national market, which should be tightly focused on promoting the smooth flow of the national economic cycle and improving the quality of the supply system for the manufacturing industry. In-depth implementation of work plan for stabilizing growth in ten key industries including steel, machinery and electronics. We will implement cluster action for advanced manufacturing, play the role of various types of zones, such as economic development zones, high-tech zones, industrial zones, and promote the zones to improve quality and efficiency. Thirdly, industry policies are favorable. By August 2023, 65 provinces and cities across the country had issued policies to promote the application of the ringlock scaffold.

To sum up, the greening, digitization and globalization of China's construction industry is the only way for the quality development of the industry, which will promote the continuous development of the market for the operation and service of highly efficient, green, environmental friendly and safe aerial work platforms, neo-excavation support systems and neo-formwork systems. At the same time, customers' demands for one-stop services for equipment leasing and the requirement for improved work efficiency will continue to promote the development of the telescopic forklifts, glass installation tool, forklift, and many other product categories.

MANAGEMENT DISCUSSION AND ANALYSIS

1.3 Company's Solutions

In 2023, adhering to the concept of high-quality and sustainable development, the Group maintained its leading position in China by various means such as increasing the scale of revenue, enhancing the efficiency of operation and management and optimizing the structure of assets and resources. At the same time, the Group achieved a breakthrough from zero to one in its second growth curve by entering the Southeast Asian market to expand the business.

Deepening the presence in global market areas and expanding business coverage. As at the end of 2023, the Group continued to adopt the strategy of deepening its presence in the domestic market and further expanded the total number of business outlets, with a total of 490 outlets (including 489 outlets in Chinese mainland and 1 outlet in Hong Kong, China) in the Group's domestic core business areas covering nearly 200 cities, which achieved wide national business coverage and quick response to the national services. Meanwhile, the Group actively explored overseas business and gradually implemented overseas stores leasing and operating business while steadily advancing overseas sales business. As at the end of 2023, the Group had 4 overseas outlets covering areas including Malaysia and Indonesia, which achieved a solid overseas business layout in Southeast Asia. As at the end of the reporting period, the Group had a total of 494 outlets worldwide.

Diversifying and expanding business types, and enriching the operational essence. As at the end of 2023, in terms of business models, the Group developed an integrated operation service business integrating leasing, engineering, subleasing and sales, in pursuit of achieving synergy among these segments, broadened the scope of its business, continued to improve its operational efficiency and safety, and enriched the operational essence of the integrated operation service of equipment.

In addition, the Group actively explores and meets the needs of customers in various industries and fields, and actively explores the business demands in the fields of construction of houses, new construction and renovation of infrastructures, operation and maintenance of urban buildings, industry and manufacturing industry, etc. The Group is committed to providing efficient equipment solution services for various industries to enhance the efficiency of the operations in construction, production and renovation in various fields with the proportion of non-new construction business rising continuously under the current circumstances.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of the diversification of business categories, in 2023, the Group carried out a multi-category introduction and marketing and promotion of telescopic forklift, automobile crane, glass installation tool, forklift, truck-mounted high-attitude vehicle, etc., collaborated with aerial work platforms, neo-excavation support system and neo-formwork system, and was committed to providing customers with one-stop services of equipment leasing to cater to the needs of customers for the construction of various types of equipment and enhance the safety and efficiency of customers' operations in the industry.

Continuous digitalisation and implementation of intelligent solutions reduce costs and improve efficiency. The Group used digital means to constantly improve efficiency and reduce costs. In terms of business flow, the Group has achieved comprehensive digitalisation, which has significantly improved the efficiency of business management in various directions, such as customer contracting, asset management and project management. Meanwhile, the Group has actively promoted the digitalisation on the warehouse network, and utilised means such as the base data dashboards and the warehouse demand management platforms to achieve a steady increase in the per-square-meter efficiency of the warehouses under the control of the warehousing costs. Third, the Group has digitalized maintenance work orders to reduce maintenance costs and equipment failure rates with functions such as digital analysis on equipment models and maintenance faults, which promoted scientific procurement and minimized operating costs throughout the entire life cycle of equipment. When actively optimizing the digitalization process, the Group has also taken steps towards intelligence and achieved improved manpower efficiency in scheduling and reduced logistics costs through intelligent allocation algorithms and platform-based logistics management.

Optimized asset structure and improved capital and equipment utilization. In terms of the allocation and portfolio optimization of the equipment fleet, on the one hand, the Group actively enhanced the management of the equipment fleet of aerial work platforms and intensified marketing efforts to achieve rapid response to customer expanding needs; on the other hand, the Group disposed and sold some of the assets with efficiency below the Group's requirements in 2023, which improved the overall asset utilization rate. In terms of capital structure optimization, the Group paid attention to operational safety and sustainability, and has improved its solvency and self-circulatory capacity in terms of gearing ratio, accounts receivable turnover ratio, cash collection ratio and other aspects.

MANAGEMENT DISCUSSION AND ANALYSIS

2. INCOME STATEMENT ANALYSIS

2.1 Income Statement Analysis (Overview)

In 2023, the Group managed to achieve overall performance growth despite the complex and volatile macro environment. Profit before tax was RMB1,226,523,000, representing an increase of 37.2% from RMB893,804,000 of the previous year. The Group adjusted certain non-core items, including listing expenses, to better present the Group's operating results. The adjusted profit before tax (a non-HKFRS measure) was RMB1,307,089,000, representing an increase of 11.5% from RMB1,172,015,000 of the previous year.

The following table sets forth the composition and changes in the Group's profit for the year:

	For the year ended 31 December		
	2023	2022	
	RMB'000	RMB'000	Change %
Revenue	**9,610,581**	7,877,646	22.0%
Cost of sales	**(5,849,180)**	(4,744,640)	23.3%
Gross profit	**3,761,401**	3,133,006	20.1%
Other income and gains	**210,092**	157,582	33.3%
Selling and administrative expenses[(1)]	**(1,540,538)**	(1,204,582)	27.9%
Provision for assets[(2)]	**(336,343)**	(110,114)	205.4%
Other expenses	**(33,926)**	(157,270)	-78.4%
Finance costs	**(834,163)**	(924,818)	-9.8%
Profit before tax	**1,226,523**	893,804	37.2%
Income tax expenses	**(264,116)**	(229,469)	15.1%
Profit for the year	**962,407**	664,335	44.9%

Notes:

(1) Sales and administrative expenses exclude impairment of repossessed assets under administrative expenses in the consolidated statement of profit or loss.

(2) Provision for assets includes expected credit losses ("ECL"), net and impairment of repossessed assets under administrative expenses in the consolidated statement of profit or loss.

MANAGEMENT DISCUSSION AND ANALYSIS

Non-HKFRS Measures

To supplement our consolidated results which are prepared and presented in accordance with HKFRS, the Group uses EBITDA, adjusted profit for the year and adjusted profit before tax, each a non-HKFRS measure, as additional financial measures, which are not required by, or presented in accordance with HKFRS. The Group believes that such non-HKFRS measures facilitate comparisons of operating performance by eliminating the potential impact of these non-core items. The use of such non-HKFRS measures has limitations as an analytical tool, and you should not consider them in isolation from, as a substitute for, analysis of, or superior to, our results of operations or financial conditions as reported under HKFRS. In addition, such non-HKFRS financial measures may be defined differently by other companies, and may not be comparable to other similarly titled measures used by other companies.

The table below sets forth the reconciliation of our non-HKFRS measures presented to the most directly comparable HKFRS measures:

	For the year ended 31 December		
	2023	2022	
	RMB'000	RMB'000	Change %
Profit for the year	**962,407**	664,335	44.9%
Less: Bank interest income	**15,630**	11,391	37.2%
Add: Income tax expenses	**264,116**	229,469	15.1%
Add: Finance costs	**834,163**	924,818	-9.8%
Add: Depreciation and Amortization[(1)]	**2,435,195**	2,273,441	7.1%
EBITDA (a non-HKFRS measure)	**4,480,251**	4,080,672	9.8%
Profit for the year	**962,407**	664,335	44.9%
Add: Listing expenses[(2)]	**12,567**	40,349	-68.9%
Add: Interest expenses and foreign exchange gains or losses from redemption liabilities on ordinary shares[(3)]	**67,999**	237,862	-71.4%
Adjusted profit for the year (a non-HKFRS measure)	**1,042,973**	942,546	10.7%
Add: Income tax expenses	**264,116**	229,469	15.1%
Adjusted profit before tax (a non-HKFRS measure)	**1,307,089**	1,172,015	11.5%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

(1) Depreciation and amortization include depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of other intangible assets.

(2) Listing expenses are expenses arising from engaging third-party institutions to provide professional services for the global offering.

(3) Interest expenses and foreign exchange gains or losses from redemption liabilities on ordinary shares represent (i) the proceeds from the pre-IPO investments received by the Group in 2021, (ii) the interest expense, and (iii) the foreign exchange gains and losses accrued from the pre-IPO investments prior to the Listing, which are non-cash in nature and do not result in cash outflow. After the Listing, the pre-IPO investment principal amount, accumulated interest expense recorded and exchange gains and losses, amounting to a total of RMB1,676,276,000, had been reclassified from liabilities to equity.

2.2 Revenue

In 2023, the Group recorded revenue of RMB9,610,581,000, representing an increase of 22.0% as compared with RMB7,877,646,000 of the previous year. The Group's revenue and profitability were mainly based on the steadily expanding customer base, the improved asset utilization, the continuous improvement of project undertaking capacity and the expanding scale of the Group's equipment management.

Attributable to our comprehensive and multi-dimensional service model covering the full cycle of projects, the Group has established a diversified, stable and high-quality customer base with years of deep cultivation in the industry. The number of the Group's customers (on a standalone basis) increased from approximately 97,000 in 2021 to approximately 158,000 in 2022 and further to approximately 232,000 in 2023, covering a wide range of industries such as municipal construction, housing construction, transportation construction, shipbuilding and offshore engineering, industrial manufacturing, green energy, warehousing and logistics, culture and art, business and entertainment.

The following table sets forth key operational information related to the Group's revenue:

	For the year ended 31 December	
	2023	2022
Aerial work platform		
Equipment volume (in thousand units)[1]	**177.6**	131.3
Utilization rate[2]	**80.0%**	77.3%
Neo-excavation support system		
Equipment volume (in thousand tons)	**1,556**	1,577
Utilization rate[2]	**70.1%**	67.9%
Neo-formwork system		
Equipment volume (in thousand tons)	**721**	623
Utilization rate[2]	**73.2%**	71.7%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

(1) As at 31 December 2023, among the 177,600 aerial work platforms operated and managed by the Group, 56,696 aerial work platforms were entrusted to the Group by other equipment owners outside the Group to operate and manage through the platform service model. Platform service model primarily refers to the model in which the Group leases from other equipment suppliers and enters into sub-leases with customers.

(2) Calculated as the average of total value of assets the Group leased out during the year divided by the average of total value of equipment the Group owned during the corresponding year. "Average of total value of equipment" is the total asset value of all equipment, averaged between the beginning and the end of the year.

In 2023, the Group proactively expanded its outlet network and deepened its presence in cities. The utilization rate for its main product lines increased over the previous year. The utilization rate for aerial work platform, neo-excavation support system and neo-formwork system also remained at relatively high levels.

2.2.1 Revenue analysis by business segment

The Group's revenue is derived from (i) operating lease services, which primarily include aerial work platform, neo-excavation support system, neo-formwork system and other equipment; (ii) engineering and technical services, which represent tailor-made one-stop solutions for different business or operation scenarios; and (iii) platform and other services, which primarily consist of platform services, and sales of equipment, materials and spare parts.

The following table sets forth the composition and changes in the Group's revenue by business segment:

	For the year ended 31 December				
	2023		2022		
	RMB'000	Proportion %	RMB'000	Proportion %	Change %
Operating lease services	**5,139,275**	**53.5%**	5,189,949	65.9%	-1.0%
Engineering and technical services	**2,964,591**	**30.8%**	2,136,630	27.1%	38.8%
Platform and other services	**1,506,715**	**15.7%**	551,067	7.0%	173.4%
Total	**9,610,581**	**100.0%**	7,877,646	100.0%	22.0%

MANAGEMENT DISCUSSION AND ANALYSIS

2.2.1.1 ***Operating lease services***

In 2023, the Group's revenue from operating lease services amounted to RMB5,139,275,000, representing a slight decrease as compared with RMB5,189,949,000 of the previous year. Leveraging the synergies among its product lines and service categories, the Group comprehensively enhanced its market competitiveness and customer loyalty. The Group's portfolio of operating lease services includes various types of leased equipment and materials, and operating lease services are provided on a daily, weekly, monthly, annual or project-by-project basis according to customers' needs.

The downstream application scenarios of the Group's equipment and material leasing services are diverse. For instance, in the manufacturing industry, our neo-excavation support system and neo-formwork system can be used for the construction of inner frames, outer frames and foundation pits of factories, whereas our aerial work platforms can be used for the installation of steel structures, lighting, fire-proofing, curtain walls, etc., during the installation phase of a factory construction. In the commercial real estate industry, our neo-excavation support system and neo-formwork system can be used for the construction of the foundation pits and frames of commercial complexes and office buildings, whereas our aerial work platforms can be used for the installation of fixtures, advertising billboards, cleaning or painting on commercial buildings. In cultural, entertainment and consumer industries, our aerial work platforms can be used for video shooting from certain height, concerts and exhibitions or trade shows, and our neo-excavation support system and neo-formwork system can be used to build stadiums and exhibition centers.

According to the statistics of the confirmed turnover derived from the equipment operated and managed by the Group in 2023, approximately 47.8% was served in industrial projects (including industrial plants and logistics warehousing), approximately 27.8% in infrastructure and municipal projects, approximately 9.7% in commercial real estate projects (including shopping malls, hotels and offices), approximately 4.7% in residential projects, and approximately 10.0% in daily operations and other projects.

MANAGEMENT DISCUSSION AND ANALYSIS

2.2.1.2 *Engineering and technical services*

In 2023, the Group's revenue from engineering and technical services amounted to RMB2,964,591,000, representing an increase of 38.8% as compared with RMB2,136,630,000 of the previous year. With the advancement of the Group's engineering technology and the continuous improvement of project undertaking capacity, the Group has proactively expanded the scale of its engineering and technical services business. In 2023, the neo-excavation support system and the neo-formwork system served more than 3,500 engineering projects (representing an increase of more than 1,300 as compared with the previous year), and the number of successful bidding projects exceeded 1,500 (representing an increase of more than 550 as compared with the previous year). The Group has undertaken representative projects such as the expansion of the production of Gree Electronic Components in Zhuhai, the Hangzhou Bay Cross-sea Bridge of the Nantong-Suzhou-Jiaxing-Ningbo High-speed Railway and the integrated construction of the comprehensive transportation hub of Baiyuntangxi Station in Guangzhou.

2.2.1.3 *Platform and other services*

In 2023, the Group's revenue from platform and other services amounted to RMB1,506,715,000, representing an increase of 173.4% as compared with RMB551,067,000 of the previous year.

Platform services represent the revenue generated by the Group through the platform service model, which refers to the model under which the Group leases from other equipment suppliers and enters into subleasing arrangements with customers. Leveraging on the Group's platform service capabilities and customer resource advantages, the Group is able to integrate and revitalize idle or scattered equipment resources for other equipment holders outside the Group, so as to better serve downstream customers and help the Group further develop diversified platform service models in the future.

Trading revenue represents revenue generated from sales of equipment, materials and spare parts by the Group. In 2023, the Group sold over 1,500 units of equipment. As the Group further expanded its business in overseas markets and deepened its penetration into overseas markets, the revenue from overseas used equipment sales increased accordingly. The Group's in-depth industry knowledge and extensive experience in the supply, repair and maintenance of aerial work platforms will enable the Group to increase revenue by providing high-quality used aerial work platforms at affordable prices to overseas customers.

MANAGEMENT DISCUSSION AND ANALYSIS

Based on the industry traffic and standardized operation methods formed by the self-operated foundation, the Group has gradually established a full-category equipment service platform in the industry. The platform business utilizes our experience in asset operation and management for years, through sublease business as an entry point, and superimposes the operation of trading platform, sales of equipment and materials and spare parts, so as to enrich the source of the Group's income. The revenue from platform services is related to the scale of the aerial work platforms managed by the Group. As at the end of 2023, the number of partners under the Group's platform service model has increased significantly. Among the 177,600 aerial work platforms operated and managed, 56,696 aerial work platforms were entrusted to the Group by other equipment owners outside the Group to operate and manage through the platform service model.

The following table sets forth the composition and changes in the Group's platform and other services:

	For the year ended 31 December				
	2023		2022		
	RMB'000	Proportion %	RMB'000	Proportion %	Change %
Platform services	**984,456**	**65.3%**	247,550	44.9%	297.7%
Trade and others	**522,259**	**34.7%**	303,517	55.1%	72.1%
Total	**1,506,715**	**100.0%**	551,067	100.0%	173.4%

MANAGEMENT DISCUSSION AND ANALYSIS

2.3 Gross Profit and Gross Profit Margin

In 2023, the Group recorded a gross profit of RMB3,761,401,000, representing an increase of 20.1% as compared with RMB3,133,006,000 of the previous year. The gross profit margin of the Group was 39.1%, representing a decrease of 0.7% as compared with 39.8% of the previous year, mainly due to the decrease in gross profit margin of operating lease services and engineering and technical services.

The following table sets forth the Group's gross profit and gross profit margin by segment:

	For the year ended 31 December				
	2023		2022		
	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %	Change in gross profit %
Operating lease services	**2,290,299**	**44.6%**	2,319,230	44.7%	-1.2%
Engineering and technical services	**865,660**	**29.2%**	640,364	30.0%	35.2%
Platform and other services	**605,442**	**40.2%**	173,412	31.5%	249.1%
Total gross profit/gross profit margin	**3,761,401**	**39.1%**	3,133,006	39.8%	20.1%

2.3.1 Operating lease services

In 2023, the gross profit of the Group's operating lease services amounted to RMB2,290,299,000, representing a decrease of 1.2% as compared with RMB2,319,230,000 of the previous year. The gross profit margin of the Group's operating lease services was 44.6%, representing a slight decrease as compared with 44.7% of the previous year, due to the fluctuation of rental price of the neo-formwork system and the neo-excavation support system of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

2.3.2 Engineering and technical services

In 2023, the gross profit of the Group's engineering and technical services amounted to RMB865,660,000, representing an increase of 35.2% as compared with RMB640,364,000 of the previous year. The gross profit margin of the Group's Engineering and technical services was 29.2%, representing a slight decrease as compared with 30.0% of the previous year, which was due to the intensified competition in the engineering and technical services market in recent years, making the Group constantly enhance its capacities of engineering and technical services to address the fluctuation of gross profit margin caused by market competition.

2.3.3 Platform and other services

In 2023, the gross profit of the Group's platform and other services amounted to RMB605,442,000, representing an increase of 249.1% as compared with RMB173,412,000 of the previous year. The gross profit margin of the Group's platform and other services was 40.2%, representing an increase of 8.7% as compared with 31.5% of the previous year, which can be further divided into:

In 2023, the gross profit of the Group's platform services increased significantly as compared with the previous year, which was mainly because the Group expanded its platform service model proactively, and the equipment operation and management capabilities were highly recognised by the market, which enabled the Group, to a large extent, to increase the scale of equipment management and the revenue from platform services through the platform service model (a model to enter into subleasing arrangements with customers after leasing equipment from other equipment suppliers).

In 2023, the gross profit of the Group's sales of equipment, materials and spare parts increased significantly as compared with the previous year, which was mainly due to the Group's active expansion of overseas sales and disposal channels of aerial work platform business, and the Group's disposal of certain equipment and materials assets that did not meet the efficiency requirements to adjust the structure of self-owned lease and service assets.

MANAGEMENT DISCUSSION AND ANALYSIS

2.4 Cost of Sales and Selling and Administrative Expenses

In 2023, the Group's cost of sales amounted to RMB5,849,180,000, representing an increase of 23.3% as compared with RMB4,744,640,000 of the previous year. The Group's selling and administrative expenses (excluding impairment of repossessed assets) amounted to RMB1,540,538,000, representing an increase of 27.9% as compared with RMB1,204,582,000 of the previous year. The total amount of the above costs and expenses was RMB7,389,718,000, representing an increase of 24.2% as compared with RMB5,949,222,000 of the previous year, which was mainly due to the increase of trading and re-rent costs of equipment, staff and labour subcontracting costs and maintenance and consumable materials costs.

The following table sets forth a breakdown of the Group's cost of sales and selling and administrative expenses (excluding impairment of repossessed assets) by nature:

	For the year ended 31 December				
	2023		2022		
	RMB'000	% of revenue	RMB'000	% of revenue	Change in amount%
Depreciation and amortization[1]	**2,374,920**	**24.7%**	2,200,446	27.9%	7.9%
Depreciation and amortization-leasehold use rights[1]	**58,117**	**0.6%**	72,995	0.9%	-20.4%
Staff and labour subcontracting costs[2]	**1,588,101**	**16.5%**	1,293,361	16.4%	22.8%
Trading and re-rent costs[3]	**818,875**	**8.5%**	402,473	5.1%	103.5%
Maintenance and consumable materials costs[4]	**715,046**	**7.4%**	490,544	6.2%	45.8%
Logistics and lifting costs[5]	**934,829**	**9.7%**	800,295	10.2%	16.8%
Research and development expenses[6]	**328,196**	**3.4%**	270,612	3.4%	21.3%
Transportation, travelling and information expenses[7]	**234,317**	**2.4%**	151,935	1.9%	54.2%
Rental and property management services expenses	**59,054**	**0.6%**	41,772	0.5%	41.4%
Listing expenses[8]	**12,567**	**0.1%**	40,349	0.5%	-68.9%
Taxes and surcharges	**46,218**	**0.5%**	35,215	0.4%	31.2%
Professional services fee[9]	**46,911**	**0.5%**	6,564	0.1%	614.7%
Other expenses[10]	**172,567**	**1.8%**	142,661	1.8%	21.0%
Total	**7,389,718**	**76.9%**	5,949,222	75.5%	24.2%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

(1) Depreciation and amortization are depreciation of property, plant and equipment, depreciation of right-of-use assets and amortization of other intangible assets, but excluding depreciation and amortization included in research and development expenses. The actual economic life of assets used in operating leases and engineering and technical services in the industry is generally up to 15-20 years after regular maintenance and repair. The Group currently adopts a prudent and conservative depreciation policy, and most of the assets used in leases and services are depreciated on a straight-line basis within 10 years. In 2023, the Group's depreciation and amortization (including the depreciation of leasehold use rights) amounted to RMB2,433,037,000, representing an increase of 7.0% as compared with the previous year, which was mainly due to the increase in the scale of equipment attributable to the expansion of the Group's business scale.

(2) The Group's staff and labour subcontracting costs mainly represent the remuneration expenses of the Group's employees and the labour subcontracting costs incurred in connection with the demand for temporary staff in engineering and technical service projects. In 2023, the Group's staff and labour subcontracting costs amounted to RMB1,588,101,000, representing an increase of 22.8% as compared with the previous year, which was mainly due to the adjustment of the Group's personnel and remuneration structure.

(3) Trading and re-rent costs mainly represent trading costs of sales of equipment, materials and spare parts and the Group's equipment leasing costs. In 2023, the Group's trading and re-rent costs amounted to RMB818,875,000, representing an increase of 103.5% as compared with the previous year, which was mainly due to the increase in the scale of platform services and trading businesses.

(4) The maintenance and consumable materials costs mainly represent the cost of spare parts for the Group's maintenance and repair of equipment and materials (including the equipment leased under the platform service model), and the cost of materials consumed by the Group's engineering and technical service projects. In 2023, the Group's maintenance and consumable materials costs amounted to RMB715,046,000, representing an increase of 45.8% as compared with the previous year, which was mainly due to the expansion of the scale of equipment and projects managed by the Group in 2023.

(5) The logistics and lifting costs mainly represent the logistics costs of equipment for transfers between different projects under the Group's operating lease services and platform services, and the lifting costs of equipment on site of engineering and technical service projects. In 2023, the Group's logistics and lifting costs amounted to RMB934,829,000, representing an increase of 16.8% as compared with the previous year, mainly due to the increase in logistics costs driven by the increase in the utilization of the Group's assets. In 2023, the Group transported a total of 900,000 vehicles, representing an increase of 37%, in terms of volume of equipment transportation, as compared with the previous year. The Group has established a tracking management system for the rapid delivery of equipment and a cost reduction management system for rapid adjustment of freight rates, which effectively guarantees the timeliness of equipment transportation in all aspects and effectively controls the transportation price of equipment. By continuously improving the logistics monitoring system, improving the delivery mode and capacity structure, and optimizing the allocation and transportation distance, the Group has greatly contributed to the efficiency and cost reduction of the Company's operations, and the unit price of logistics decreased from RMB11.4 to RMB10.9 per kilometre in 2023.

(6) The Group's research and development expenses are mainly depreciation, materials and staff cost from research and development activities which are used for the upgrade and digitalization of engineering and technical services and internet of things ("IoT"). In 2023, the Group's research and development expenses amounted to RMB328,196,000 (including depreciation and amortization amounting to RMB2,158,000), representing an increase of 21.3% as compared with the previous year, reflecting the Group's continuous and stable investment in research and development.

(7) The Group incurred transportation, travelling and information expenses of RMB234,317,000, representing an increase of 54.2% as compared with the previous year, which was mainly due to the decrease in the impact of the epidemic to the Group's operation as compared with the previous year and the increase in travel expenses as a result of the expansion of overseas market expansion.

(8) The listing expenses incurred by the Group amounted to RMB12,567,000, which were expenses arising from engaging third-party institutions to provide professional services for the global offering.

(9) The Group incurred professional service fees of RMB46,911,000, representing a significant increase as compared with the previous year, which was mainly due to the Group's steady progress in various compliance work, as well as fees incurred by the Group's external professional lawyers' team to diversify collection methods and strengthen collection efforts.

(10) Other expenses mainly include fuel costs consumed by engineering and technical service projects, office expenses and business entertainment and promotion expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

2.5 Other Income and Gains

In 2023, the Group realised other income and gains of RMB210,092,000, representing an increase of 33.3% as compared with RMB157,582,000 of the previous year, mainly due to the increase in government grants received by the Group.

2.6 Provision for Assets

The provision for assets of the Group is mainly expected credit losses ("ECL"). The Group adopts a prudent strategy to assess the risk of asset provision, to carry out multi-dimensional quantitative assessment on the imported customers and to strengthen the monitoring of the repayment ability of customers through the linkage mechanism of risk review and risk control, so as to ensure the security of receivable – type assets of the Group.

The following table sets forth a breakdown of expected credit losses ("ECL") of the Group:

	For the year ended 31 December				
	2023		2022		
	RMB'000	Proportion %	RMB'000	Proportion %	Change %
Trade receivables and contract assets	**152,054**	**53.6%**	65,024	59.0%	133.8%
Notes receivables	**115,007**	**40.6%**	32,257	29.3%	256.5%
Other	**16,410**	**5.8%**	12,833	11.7%	27.9%
Total	**283,471**	**100.0%**	110,114	100.0%	157.4%

For details, please refer to the discussion and analysis in 3.3, 3.4 and 3.5 of this section.

MANAGEMENT DISCUSSION AND ANALYSIS

2.7 Other Expenses

Other expenses of the Group primarily consist of (i) foreign exchange losses, mainly arising from the redemption liabilities on ordinary shares and bank borrowings denominated in USD of the Group; and (ii) commission expenses, representing commission fees and handling fees charged by banks and non-bank financial institutions in connection with the bank and other borrowings of the Group.

In 2023, the Group's other expenses amounted to RMB33,926,000, representing a decrease of 78.4% as compared with RMB157,270,000 of the previous year, mainly due to the decrease of foreign exchange losses of RMB120,329,000.

2.8 Finance Costs

Finance costs of the Group primarily consist of (i) interest on borrowings; and (ii) interest on lease liabilities.

In 2023, the Group's finance costs amounted to RMB834,163,000, representing a decrease of 9.8% as compared with RMB924,818,000 of the previous year, which was primarily due to the decrease in interest on borrowings of the Group of RMB100,129,000. For details, please refer to the discussion and analysis in 2.8.1 and 3.8 of this section.

2.8.1 Interest on borrowings

The following table sets forth the average balance of interest-bearing bank and other borrowings, interest expense, and average financing rate of the Group:

	For the year ended 31 December					
	2023			2022		
	Average balance[1]	Interest expense	Average financing rate[2]	Average balance[1]	Interest expense	Average financing rate[2]
	RMB'000	RMB'000		RMB'000	RMB'000	
Interest-bearing bank and other borrowings	**19,275,673**	**820,230**	**/**	19,454,940	920,359	/
Including: interest-bearing bank and other borrowings, deducting redemption liabilities on ordinary shares	**18,562,114**	**773,602**	**4.17%**	18,088,158	812,298	4.49%

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

(1) Average balance = (balance of interest-bearing bank and other borrowings at the beginning of the year + balance of interest-bearing bank and other borrowings at the end of the year)/2.

(2) Average financing rate= interest expense during the year/corresponding average balance.

In 2023, average financing rate of interest-bearing bank and other borrowings after deducting redemption liabilities on ordinary shares of the Group was 4.17%, representing a decrease of 0.32 percentage point as compared with 4.49% of the previous year, which was primarily because the Group continued to optimise its financing structure and drawdown of low-cost funds from high-quality financing channels, resulting in lower financing costs as a whole.

2.9 Income Tax Expenses

In 2023, the Group's income tax expenses amounted to RMB264,116,000, representing an increase of 15.1% as compared with RMB229,469,000 of the previous year, mainly due to the increase in profit before tax of the Group; effective tax rate of the Group was 21.5%, representing a decrease of 4.2 percentage points as compared with 25.7% of the previous year, mainly due to decrease in non-deductible taxes, including interest expenses and foreign exchange gains or losses from redemption liabilities on ordinary shares and listing expenses.

2.10 Profit for the Year

Based on the above discussion and analysis, profit for the year of the Group was RMB962,407,000, representing an increase of 44.9% as compared with RMB664,335,000 of the previous year. Adjusted profit for the year (a non-HKFRS measure) of the Group was RMB1,042,973,000, representing an increase of 10.7% as compared with RMB942,546,000 of the previous year. The increase was mainly due to the significant decrease in the interest expenses and foreign exchange gains or losses from redemption liabilities on ordinary shares in 2023 as compared with the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

2.11 Basic Earnings per Share

In 2023, basic earnings per share of the Group amounted to RMB0.316, representing an increase of RMB0.081 or 34.5% from RMB0.235 of the previous year.

	For the year ended 31 December		
	2023	2022	Change %
Profit for the year attributable to holders of ordinary shares of the Company (RMB'000)	**962,407**	664,335	44.9%
Weighted average number of ordinary shares in issue (share)[(1)]	**3,045,288,167**	2,832,550,000	7.5%
Basic earnings per share (RMB)	**0.316**	0.235	34.5%

Note:

(1) Weighted average number of ordinary shares in issue (share) = the number of outstanding ordinary shares at the beginning of the year + (the number of new issued ordinary shares during the year × number of months from new share issuance to the year end/12)

3. ANALYSIS OF FINANCIAL CONDITION

3.1 Assets (Summary)

As at 31 December 2023, total assets of the Group were RMB31,236,775,000, representing an increase of RMB948,381,000 or 3.1% as compared with the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth assets of the Group as at the dates indicated:

	31 December 2023		31 December 2022		
	RMB'000	% of total	RMB'000	% of total	Change %
Property, plant and equipment	**18,221,107**	**58.3%**	19,102,390	63.1%	-4.6%
Trade receivables	**5,029,820**	**16.1%**	4,486,990	14.8%	12.1%
Contract assets	**383,863**	**1.2%**	304,295	1.0%	26.1%
Notes receivables[(1)]	**1,236,738**	**4.0%**	1,036,355	3.4%	19.3%
Cash and cash equivalents	**2,166,798**	**7.0%**	2,159,325	7.1%	0.3%
Prepayments, other receivables and other assets	**2,684,805**	**8.6%**	2,278,799	7.6%	17.8%
Right-of-use assets	**978,426**	**3.1%**	335,222	1.1%	191.9%
Deferred tax assets	**348,590**	**1.1%**	329,681	1.1%	5.7%
Inventories	**170,211**	**0.6%**	186,217	0.6%	-8.6%
Derivative financial instruments	**12,658**	**0.0%**	2,379	0.0%	432.1%
Other intangible assets	**3,745**	**0.0%**	3,797	0.0%	-1.4%
Restricted bank balances	**14**	**0.0%**	62,944	0.2%	-100.0%
Total assets	**31,236,775**	**100.0%**	30,288,394	100.0%	3.1%
Including: non-current assets	**20,115,074**	**64.4%**	19,948,449	65.9%	0.8%
Including: current assets	**11,121,701**	**35.6%**	10,339,945	34.1%	7.6%

Note:

(1) Notes receivables are recorded under "debt investments at fair value through other comprehensive income" in the consolidated statement of financial position.

MANAGEMENT DISCUSSION AND ANALYSIS

3.2 Property, Plant and Equipment

As at 31 December 2023, the property, plant and equipment of the Group amounted to RMB18,221,107,000, representing a decrease of RMB881,283,000 or 4.6% as compared with the end of the previous year, which was due to the combined effect of the following factors: (i) in 2023, the scale of equipment management was expanded through the platform service model to respond to diversified customer needs, and the disposal of some equipment and material assets which did not meet the efficiency requirements of the Group to adjust the asset structure of the Group at the same time; and (ii) the depreciation made for property, plant and equipment amounted to RMB2,312,898,000 for the current year.

The following table sets forth the property, plant and equipment of the Group as at the dates indicated:

	31 December 2023		31 December 2022		
	RMB'000	% of total	RMB'000	% of total	Change %
Equipment, materials and moulds for leasing and services	17,593,308	96.6%	18,400,428	96.4%	-4.4%
Buildings	544,392	3.0%	578,637	3.0%	-5.9%
Leasehold improvements	15,887	0.1%	28,424	0.1%	-44.1%
Other	67,520	0.3%	94,901	0.5%	-28.9%
Total	18,221,107	100.0%	19,102,390	100.0%	-4.6%

The equipment, materials and moulds for leasing and services of the Group mainly include aerial work platforms of RMB9,215,312,000, neo-excavation support system of RMB5,011,742,000 and neo-formwork system of RMB3,100,784,000, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group researches the operating lease market by product category and by geography (both domestic and overseas) to estimate appropriate time for further actions. The Group would consider disposing of the equipment and material assets which did not meet the efficiency requirements of the Group to second-hand market after such equipment and material assets have been used for a certain period of time.

For equipment maintenance and management, the equipment asset service and maintenance team of the Group has a comprehensive decision-making and balance mechanism comprising front-end monitoring and handling, middle-office process control and back-end supervision and support, and establishes a management system covering the full life circle of asset maintenance, which realises a whole process closed-loop management of "equipment procurement-equipment leasing services flow and process maintenance-equipment overhaul-equipment disposal", with the support of organizational guarantee, technical guarantee and material guarantee to improve the overall efficiency of equipment operation.

3.3 Trade Receivables and Contract Assets

Trade receivables represent amounts receivable by the Group for services rendered and goods sold to customers.

Contract assets represent the right to receive payment arising from the provision of engineering and technical services by the Group to customers; contract assets are initially recognised for revenue earned from engineering and technical services as the receipt of consideration is conditional on successful completion of services and acceptance by the customer, respectively. Upon completion of services and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

The table below sets forth the composition of the trade receivables and contract assets of the Group as at the dates indicated:

	31 December 2023	31 December 2022	
	RMB'000	RMB'000	Change %
Trade receivables			
Gross carrying amount[1]	**6,028,731**	5,387,345	11.9%
Provision[1]	**-998,911**	-900,355	10.9%
Net carrying amount	**5,029,820**	4,486,990	12.1%
Contract assets			
Gross carrying amount	**428,947**	335,104	28.0%
Provision	**-45,084**	-30,809	46.3%
Net carrying amount	**383,863**	304,295	26.1%
Total			
Gross carrying amount	**6,457,678**	5,722,449	12.8%
Provision	**-1,043,995**	-931,164	12.1%
Net carrying amount	**5,413,683**	4,791,285	13.0%

Note:

(1) As at 31 December 2023, the written-off bad debts of trade receivables of the Group amounted to RMB39,223,000 (31 December 2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

3.3.1 Total trade receivables and contract assets

As at 31 December 2023, the total trade receivables and contract assets of the Group amounted to RMB6,457,678,000, representing an increase of RMB735,229,000 or 12.8% as compared with the end of previous year, mainly due to the expansion in the scale of the Group's business.

3.3.2 Provision for trade receivables and contract assets

As at 31 December 2023, the provision for trade receivables and contract assets of the Group aggregated to RMB1,043,995,000, representing an increase of RMB112,831,000 or 12.1% as compared with the end of previous year, which is mainly due to the increase in the total trade receivables and contract assets of the Group.

The Group has implemented systematic risk management assessment policies to evaluate the credit and performance of our customers. The Group has a large number of customers, in particular, it needs to deal with a large number of small and medium-sized customers in aerial work platform business, among which the Group used a "Hongxin Score" ("宏信分") model to carry out quantitative risk assessment for such customers. By superimposing historical transaction data, external monitoring data and internal cooperation records accumulated in the course of operation from multiple dimensions, such model performs quantitative analysis on 70 subdivision indicators to screen out the characteristics of high-quality customers, thus realising intelligent and automatic evaluation of small and medium-sized customers. For large-scale engineering projects, the Group selected customers and projects through quantitative and manual evaluation, fully evaluated the potential risks such as project compliance risk, construction technology risk, supply guarantee risk, HSE risk and credit risk from multiple dimensions, and formulated corresponding solutions. In terms of trade receivables management, the Group strengthened risk awareness through risk review and risk control and debt linkage mechanism, and realised effective isolation of risk customers through management mechanisms such as blacklist, and conducted on-site evaluation of our customer's operation as necessary. The Group reviews the trade receivables balance and follows up with our customers with overdue trade receivables on a quarterly basis. At the same time, the Group classified trade receivables into different risk levels and recognised provisions accordingly with reference to our past recoverability, the quarterly review of ageing of trade receivables and observable changes in economic conditions that correlate with default on trade receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

3.3.3 Trade receivables turnover days and ageing distribution

In 2023, the trade receivables turnover days were 181 days, representing a decrease as compared with the previous year, which is mainly due to the continuous improvement of the Group's ability to collect payments, resulting in the increase of total revenue higher than the increase of average net trade receivables.

The table below sets forth the ageing distribution of the trade receivables of the Group as at the dates indicated, based on the billing date, and the trade receivables turnover days for the years indicated:

	31 December 2023				31 December 2022				
	Total	Provision	Net	Net	Total	Provision	Net	Net	Change, net %
	RMB'000	RMB'000	RMB'000	% of total	RMB'000	RMB'000	RMB'000	% of total	
Trade receivables									
Within 1 year	4,527,445	-557,175	3,970,270	78.9%	4,454,357	-574,859	3,879,498	86.5%	2.3%
More than 1 year	1,501,286	-441,736	1,059,550	21.1%	932,988	-325,496	607,492	13.5%	74.4%
Total	6,028,731	-998,911	5,029,820	100.0%	5,387,345	-900,355	4,486,990	100.0%	12.1%
Trade receivables turnover days[(1)] (Days)				181				201	

Note:

(1) The trade receivables turnover days equals the average net trade receivables at the beginning and end of the year divided by the total revenue for the year and multiplied by 365.

MANAGEMENT DISCUSSION AND ANALYSIS

3.4 Notes Receivables

As at 31 December 2023, the notes receivables of the Group amounted to RMB1,236,738,000, representing an increase of RMB200,383,000 or 19.3% as compared with the end of previous year, which is mainly due to the Group's prudent collection strategy.

The following table sets forth the notes receivables of the Group as at the dates indicated:

	31 December 2023		31 December 2022		
	RMB'000	% of total	RMB'000	% of total	Change %
Bank acceptances	**391,655**	**31.7%**	370,767	35.8%	5.6%
Commercial acceptance bills	**845,083**	**68.3%**	665,588	64.2%	27.0%
Total	**1,236,738**	**100.0%**	1,036,355	100.0%	19.3%

3.5 Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets primarily consist of (i) prepayments and deposits, mainly including expenditures related to our procurement and rental of equipment or materials, deposits paid to providers for the re-renting of equipment, deposits paid for financing, deposits paid for factoring of trade receivables, and deposits paid to bid for projects; and (ii) tax recoverable, which primarily includes our input VAT to be credited.

As at 31 December 2023, the net prepayments, other receivables and other assets of the Group amounted to RMB2,684,805,000, representing an increase of RMB406,006,000 or 17.8% as compared with the end of the previous year, which was mainly due to the increase in the deposits and repossessed assets of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth a breakdown of the Group's prepayments, other receivables and other assets as at the dates indicated:

	31 December 2023		31 December 2022		
	RMB'000	% of total	RMB'000	% of total	Change %
Prepayments and deposits	1,243,020	45.5%	785,915	34.1%	58.2%
Other receivables	95,654	3.5%	90,193	3.9%	6.1%
Tax recoverable	1,085,001	39.7%	1,400,331	60.7%	-22.5%
Other	306,418	11.3%	31,238	1.3%	880.9%
Total	2,730,093	100.0%	2,307,677	100.0%	18.3%
Provision	-45,288		-28,878		56.8%
Net	2,684,805		2,278,799		17.8%

3.6 Other Assets

As at 31 December 2023, cash and cash equivalents of the Group amounted to RMB2,166,798,000. The Group retains a relatively abundant cash and cash equivalents to support its business development needs and ensure the liquidity safety of the Group. The cash and cash equivalents of the Group are mainly RMB-denominated assets, as well as a small amount of foreign currencies, including Hong Kong Dollar, US Dollar, Malaysian Ringgit, Indonesian Rupiah, Thai Baht, Vietnamese Dong, Singapore Dollar.

The balance of right-of-use assets of the Group amounted to RMB978,426,000. As at the lease commencement date, the Group recognised right-of-use assets and the corresponding lease liabilities, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

MANAGEMENT DISCUSSION AND ANALYSIS

The balance of deferred tax assets of the Group amounted to RMB348,590,000, which was mainly deferred tax assets recognised for the provision for assets.

The balance of inventories of the Group amounted to RMB170,211,000, primarily consisting of (i) raw materials, which primarily represents raw materials used for manufacturing neo-formwork system and spare parts used for repairing aerial work platform; (ii) work in progress, which mainly represents our self-manufactured neo-formwork system; and (iii) finished goods held for sale in the ordinary course of business.

The balance of derivative financial instruments assets of the Group amounted to RMB12,658,000, which were mainly derivative financial instruments used by the Group to reduce the exchange risk level of US dollar borrowings, the change in corresponding fair value was recorded consolidated statement of profit or loss.

The balance of other intangible assets of the Group amounted to RMB3,745,000, which were mainly purchased software.

The restricted bank balances of the Group amounted to RMB14,000.

3.7 Liabilities (Overview)

As at 31 December 2023, the total liabilities of the Group were RMB20,459,108,000, representing a decrease of RMB3,157,094,000, or 13.4% as compared with the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the details of the Group's liabilities as at the dates indicated:

	31 December 2023		31 December 2022		
	RMB'000	% of total	RMB'000	% of total	Change %
Interest-bearing bank and other borrowings	**17,339,232**	**84.8%**	21,212,114	89.8%	-18.3%
Trade and bills payables	**1,552,487**	**7.6%**	1,109,794	4.7%	39.9%
Other payables and accruals	**682,688**	**3.3%**	1,003,074	4.2%	-31.9%
Lease liabilities	**693,604**	**3.4%**	131,259	0.6%	428.4%
Tax payables	**173,588**	**0.8%**	141,020	0.6%	23.1%
Derivative financial instruments	**2,581**	**0.0%**	2,257	0.0%	14.4%
Deferred revenue	**14,928**	**0.1%**	16,684	0.1%	-10.5%
Total liabilities	**20,459,108**	**100.0%**	23,616,202	100.0%	-13.4%
Including: Current liabilities	**9,281,519**	**45.4%**	8,190,967	34.7%	13.3%
Non-current liabilities	**11,177,589**	**54.6%**	15,425,235	65.3%	-27.5%

3.8 Interest-bearing Bank and Other Borrowings

Facing a complex domestic and international financial environment, the Group has made good progress towards borrowings, the debt structure continuously being optimized. In 2023, the Group has proactively expanded long-term products within 5 to 7 years in order to further enhance liquidity security. Channel resources and credit ratings scales in Tianjin and Guangzhou rise up, as the result, financing stability becomes greater. We actively promoted green syndicated loans, supply chain financing, loan products for technology startups and other products, so that financing costs further decreased.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2023, the Group's interest-bearing bank and other borrowings was RMB17,339,232,000, representing a decrease of RMB3,872,882,000, or 18.3% as compared with the end of the previous year, with average financing rate of 4.17% after deducting redemption liabilities on ordinary shares. The decrease in balance of interest-bearing bank and other borrowings was mainly attributable to: (i) the recipients of proceeds from our pre-IPO investments of USD204,910,000 in 2021 by the Group, which was reclassified as equity from liabilities; and (ii) decrease in interest-bearing bank and other borrowings as the result of the control over the scale of procurement of equipment owned by the Group in 2023.

The following table sets forth the compositions of the Group's interest-bearing bank and other borrowings as at the dates indicated:

	31 December 2023		31 December 2022		
	RMB'000	Proportion %	RMB'000	Proportion %	Change %
Interest-bearing bank and other borrowings	**17,339,232**	**100.0%**	19,784,996	93.3%	-12.4%
Redemption liabilities on ordinary shares	**–**	**–**	1,427,118	6.7%	–
Total	**17,339,232**	**100.0%**	21,212,114	100.0%	-18.3%
Including: Current liabilities	**6,694,592**	**38.6%**	6,143,418	29.0%	9.0%
Non-current liabilities	**10,644,640**	**61.4%**	15,068,696	71.0%	-29.4%

In 2023, the Group has prudentially managed financial risk. As at 31 December 2023, the unsecured interest-bearing bank and other borrowings represented a slight increase to 70.7% as compared with that of 66.0% at the end of the previous year, while the secured interest-bearing bank and other borrowings represented a slight decrease as compared with the end of the previous year, mainly because the Group settled secured borrowings with short terms and high costs by prepayment and took out unsecured borrowings with longer terms and lower costs so as to optimize its debt structure.

As at the dates indicated, other borrowings of the Group were pledged by equipment, materials and moulds for leasing and services.

MANAGEMENT DISCUSSION AND ANALYSIS

3.8.1 Redemption liabilities on ordinary shares

Redemption liabilities on ordinary shares were USD204,910,000, the principal proceeds from our pre-IPO investments received by the Group in 2021, translated into RMB1,326,185,000 at the historical exchange rate; the Group are required to pay investment amount and underlying interest denominated in USD at fixed annual interest rates of 8% if the Group are unable to complete the listing within 36 months. As at the Listing Date, the accumulated interest and foreign exchange losses of the Group were RMB350,091,000 in total and the balance of principal and interest of the Group's redemption liabilities on ordinary shares was RMB1,676,276,000. As at 31 December 2023, these amounts were reclassified as equity from liabilities.

3.9 Trade and Bills Payables

Trade and bills payables are amounts payable to suppliers.

As at 31 December 2023, the Group's trade and bills payables were RMB1,552,487,000, representing an increase of 39.9% as compared with that of RMB1,109,794,000 at the end of the previous year, which is mainly attributable to reasonable management of the expected recovery from suppliers and appropriate extension of payment cycles.

3.10 Other Payables and Accruals

The Group's other payables and accruals primarily include (i) deposits, which represent deposits paid by our customers; (ii) salary and welfare payable to our employees; (iii) advanced rentals and contract liabilities, which represent amounts received from customers by the Group in advance for services according to the payment schedule as agreed in the contract; (iv) interest payables relating to bank and other borrowings; and (v) other tax payables (primarily VAT payables).

As at 31 December 2023, the Group's balance of other payables and accruals was RMB682,688,000, representing a decrease of 31.9% as compared with that of RMB1,003,074,000 at the end of the previous year, which is mainly due to the interest payable of the Group's redemption liabilities on ordinary shares of RMB181,159,000 at the end of the previous year, which was reclassified as equity from liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

3.11 Derivative Financial Instruments

The Group's derivative financial instruments liability is interest rate swap financial instrument, which is used to hedge for interest risk exposure of floating rate borrowings of the Group. The Group adopted hedge accounting, the change in fair value of interest rate swap amount instrument was recorded in change in equity.

3.12 Shareholders' equity

As at 31 December 2023, the Company's total equity was RMB10,777,667,000, representing an increase of RMB4,105,475,000, or 61.5% as compared with that of the end of the previous year, mainly including: (i) the increase of equity of RMB1,466,813,000 as a result of the Company's net proceeds from the listing and issuance of 364,694,000 ordinary shares (deducting underwriting commission and other issuance expenses recorded in Shareholders' equity), among which, RMB51,000 was recorded to the Company's share capital based on a par value of USD0.00002 per share, and the remaining part was recorded to the Company's reserves; (ii) the increase of equity of RMB1,676,276,000 due to that the principal amount of the pre-IPO investment proceeds received by the Company in 2021, accumulated interest expense recorded and foreign exchange gains and losses was reclassified to equity after the Listing; (iii) the increase of equity of RMB962,407,000 upon the realization of profit for the year in 2023; and (iv) the net decline of equity of RMB21,000 from other items.

The following table sets forth the analysis of the Company's equity as at the dates indicated:

	31 December 2023	31 December 2022	
	RMB'000	RMB'000	Change %
Share capital	421	370	13.8%
Reserves	10,777,246	6,671,822	61.5%
Total equity	10,777,667	6,672,192	61.5%

MANAGEMENT DISCUSSION AND ANALYSIS

4. CAPITAL MANAGEMENT

For the purpose of stable capital management and subject to the changes of economic environment, the Group has adopted prudential capital management strategy. The Group regulates capital structure and financial management efficiency through financial return criteria (i.e. "return on average equity", "return on average total assets" and others) and leverage ratio (i.e. "gearing ratio").

The following table sets forth the key financial ratios of the Group:

	2023	2022
Return on average equity(1)	**11.0%**	10.5%
Return on average total assets(2)	**3.1%**	2.3%
Gearing ratio(3)	**65.5%**	78.0%

Notes:

(1) Return on average equity = profit for the year attributable to holders of ordinary shares of the Company/average balance of total equity at the beginning and the end of the year attributable to holders of ordinary shares of the Company.

(2) Return on average total assets = profit for the year attributable to holders of ordinary shares of the Company/average balance of total assets at the beginning and the end of the year.

(3) Gearing ratio = total liabilities at the end of the year/total assets at the end of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

4.1 Return on Average Equity

The Group's return on average equity increased from 10.5% in 2022 to 11.0% in 2023, primarily because the increase of the profit for the year of the Group was higher than that of average equity.

4.2 Return on Average Total Assets

The Group's return on average total assets increased from 2.3% in 2022 to 3.1% in 2023, primarily because the increase of the profit for the year of the Group was higher than that of average total assets.

4.3 Gearing Ratio

As at 31 December 2023, the Group's gearing ratio was 65.5%, representing a decrease of 12.5% as compared with that of 78.0% at the end of the previous year, mainly due to the reclassification of the principal amount and balance of interest payables of the Group's redemption liabilities on ordinary shares into equity.

5. CAPITAL EXPENDITURE

The Group's capital expenditure consisted of additions to property, plant and equipment and other intangible assets. In 2023, our capital expenditure amounted to RMB2,032,537,000, representing a decrease of 36.9% as compared with RMB3,220,391,000 of the previous year. The decrease is mainly due to the Group's control over the scale of procurement of equipment through expanding equipment volume under management with the platform service model. The Group intends to finance future capital expenditure plans through cash flow from operating activities, bank and other borrowings and the net proceeds from the global offering.

MANAGEMENT DISCUSSION AND ANALYSIS

6. RISK MANAGEMENT

The Group is exposed to various types of financial risks in the ordinary course of business, including foreign currency risk, liquidity risk etc. Overall risk management strategy of the Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

6.1 Foreign Currency Risk

The Group's monetary assets, liabilities and transactions are principally denominated in RMB, with minor business dominated with other currencies. As at 31 December 2023, the Group adopted prudent currency risk management, and most of currencies, excluding those hedged by derivative financial instruments against foreign exchange exposure, owned by the Group were dominated with RMB. Therefore, the Group's foreign exchange risk exposure is limited and there is a lower foreign currency risk.

6.2 Liquidity Risk

The Group's objective is to maintain balance between continuity of funding and flexibility by using interest-bearing bank and other borrowings. The Group managed to control the liquidity risk through the following measures: (i) optimize our financing structure by expanding long-term financing products to mitigate the maturity mismatches between assets and liabilities; and (ii) operate effective capital plan and management mechanism and maintain a certain percentage of capital position to ensure the safe liquidity.

7. PLEDGE OF ASSETS

As at 31 December 2023, the Group had pledged its property, plant and equipment of RMB6,476,770,000 to non-bank financial institutes in order to secure other borrowings, and used deposits of RMB47,173,000 as collateral for other borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

8. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2023 and 31 December 2022, the Group did not have any material contingent liability, guarantees or any other material litigation or claims outstanding or threatened against the Group that could have a material adverse effect on its business, financial condition or results of operations.

As at the dates indicated, the capital commitments of the Group are as follows:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Contracted, but not provided for:		
Purchase of plant and machinery	**108,067**	69,234

9. MATERIAL INVESTMENTS, ACQUISITIONS OR DISPOSALS

In 2023, the Group did not have any material investments, acquisitions or disposals of subsidiaries, associates and joint ventures.

MANAGEMENT DISCUSSION AND ANALYSIS

10. HUMAN RESOURCES

As at 31 December 2023, the Group had a total of 4,563 employees (31 December 2022: 4,249 employees).

The Group provides competitive remuneration packages for employees based on their qualities, capabilities, performance and comparable information on the market, in order to attract, retain and encourage excellent talent. The remuneration packages generally include salary, contributions to pension scheme and discretionary bonuses. The Group also offers trainings for employees. The Group will regularly review the remuneration packages to reflect market practice and employees' performance.

The Chinese employees of the Group are entitled to participating in several government-regulated housing fund, medical insurance and other social insurance schemes. The Group makes monthly contributions to those funds based on a certain percentage of the employees' salaries, subject to certain ceilings. The Group's obligations in respect of these funds are limited to the contributions payable each year. The contributions to housing fund, medical insurance and other social insurance are expensed when incurred. In accordance with the PRC Labor Law, the Group has made contributions to social insurance (including endowment insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and housing fund for employees. The Group also provides supplemental medical insurance, group accident insurance and employer liability insurance in addition to those required under the PRC regulations. As at 31 December 2023, the Group complied with all statutory social insurance and housing fund obligations applicable to the Group under the PRC laws in all material aspects.

11. USE OF PROCEEDS

On the Listing Date, the Company issued 364,694,000 ordinary shares to the public at HK$4.52 per share and such shares were listed on the Stock Exchange. The Group has received net proceeds from the global offering of approximately RMB1,466,813,000, after deducting underwriting commission and other issuance expenses recorded in Shareholders' equity. As at 31 December 2023, the funds raised from the listing by the Group were utilised for the same purposes as the intended use of proceeds and expected timetable disclosed previously in the section headed "Future Plans and Use of Proceeds" in the prospectus dated 12 May 2023 (the "Prospectus"). The table below sets out details of the allocation plan of net proceeds, as well as the amount of utilised and unutilised net proceeds as at 31 December 2023:

MANAGEMENT DISCUSSION AND ANALYSIS

Use	Designated allocation of net proceeds	Proportion %	As at 31 December 2023 Amount of utilised net proceeds	As at 31 December 2023 Amount of unutilised net proceeds	Expected timetable for fully utilising balances
	RMB'000		RMB'000	RMB'000	
Optimize equipment portfolio	982,765	67.0%	**328,053**	654,712	Before 31 December 2024
Enhance one-stop solution capabilities	161,349	11.0%	**72,828**	88,521	Before 31 December 2024
Expand service outlet network	58,673	4.0%	**31,874**	26,799	Before 31 December 2024
Digitalization upgrade	117,345	8.0%	**54,983**	62,362	Before 31 December 2024
Working capital and general corporate purposes	146,681	10.0%	**146,681**	–	–
Total	1,466,813	100.0%	**634,419**	832,394	

The unutilized amount is expected to be used in accordance with the Company's plan as disclosed in the Prospectus and stated above. To the extent that the net proceeds are not applied to the above purposes in real time or if the Group is unable to effect any part of our future development plans as envisaged, the Group intends to hold such funds in short-term demand deposits with authorized financial institutions or licensed banks as defined in the SFO or applicable PRC laws and regulations for so long as it is deemed to be in the interests of the Company and the Shareholders as a whole.

12. EVENTS AFTER THE REPORTING PERIOD

The Group had no significant subsequent events requiring disclosure after 31 December 2023 up to the date of this report.

13. OTHER INFORMATION

13.1 Changes in Accounting Estimates

On 12 March 2024, in order to more accurately reflect the actual conditions of the useful life and expected net residual value of relevant category of fixed assets of the Group, to enhance the reliability, relevance and comparability of the financial statements of the Group and to promote the sustainable and high-quality development of the Group, the Group resolved to change the accounting estimates of the depreciation life and expected net residual value rate of the relevant fixed assets for the accounting or reporting period commencing on 1 January 2024. Therefore, the expected useful life of the hot-dip galvanizing scaffolds in the neo-formwork system would be changed from 10 years to 20 years, and the expected net residual value rate would be changed from 10% to 30%. The changes in accounting estimates are adopted with prospective application method without retrospective adjustments, which will not have impacts on the Group's disclosed financial statements and reports. Please refer to the announcement of the Company dated 12 March 2024 for details.

MANAGEMENT DISCUSSION AND ANALYSIS

13.2 Adoption of Share Schemes

On 12 March 2024, the Company adopted a restricted shares award scheme, and expected to grant a maximum of 111,903,540 existing shares of the Company to selected employee participants for the purpose of rewarding them for their contribution to the Group and encouraging them to continue their efforts towards enhancing the value of the Company. On the same date, the Company proposed to adopt a share option scheme, and expected that the total number of new Shares in respect of which share options may be granted under the share option scheme shall not exceed 47,958,660 Shares (assuming there is no change to the Company's total issued Shares during the period from the date of this report to the date of the general meeting to approve the share option scheme. The share option scheme is subject to the approval of the Shareholders at a general meeting of the Company, and the approval of the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the relevant number of Shares to be issued by the Company as a result of the exercise of the share options in accordance with the terms of the share option scheme. Details about the share option scheme, including its principal terms, will be set out in the circular of the Company to be announced and/or despatched to the Shareholders in due course. Please refer to the announcement of the Company dated 12 March 2024 for details.

14. FUTURE PROSPECT

In 2024, to align with the national and regional development of the "three major projects", "new infrastructure", "new productive forces", etc., Horizon Construction Development will continuously deepen its presence in the domestic market, work with upstream equipment suppliers and downstream service partners to explore new service products and new service scenarios, and closely follow the evolving market demands, so as to constantly create value for customers.

In the future, the Company will continue its resolute commitment to implement the "three+three+three (三+三+三)" overseas development strategy. In other words, during the first three-year period, the Company will strive to solidify the competitive landscape of the main market in China by building its competitive moat, and initially unleash the potential of its overseas operations by actively exploring the market of Southeast Asia; during the second three-year period, the Company will achieve a systematic improvement on overseas operations, with the development of the Chinese market and the Southeast Asia market advancing side by side, and preliminarily take root in the markets of Middle East and North Africa by exploring to expand multiple markets there; during the third three-year period, the Company will achieve decent performance in the overseas market, develop rapidly in the markets of Middle East and North Africa, shape the "three-three-three (三三三)" pattern, and grow into a multinational group. The Company will seize the window of opportunity for growth in overseas markets through the construction of outlets in overseas markets and cooperation with local industry peers to form the second curve of growth for Horizon Construction Development. Meanwhile, the Company will continue to upgrade its regional coverage, service network and tiered operations in China, work more closely with manufacturers of construction machinery and equipment to consolidate its competitive advantages, and accelerate the improvement of operation and management efficiencies brought by digital and intelligent upgrades.

CORPORATE GOVERNANCE REPORT

The board of directors (the "Directors") of the Company (the "Board") is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 December 2023.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining good corporate governance standards. The Group acknowledges the vital importance of good corporate governance to the Group's success and sustainability. We are committed to achieving a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of our business.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, to enhance corporate value, to formulate its business strategies and policies and to enhance its transparency and accountability.

The Company has applied the principles and code provisions as set out in the part 2 of Appendix C1 (Corporate Governance Code, the "CG Code") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Company has complied with the code provisions of the CG Code throughout the period from the Listing Date to 31 December 2023, except for code provision F.2.2 as explained in the paragraph headed "Communication with Shareholders and Investors/Investor Relations" below.

The Company will continue to enhance its corporate governance practices as appropriate to the conduct and growth of its business and to review such practices from time to time to ensure that they comply with the CG Code and align with the latest developments.

CORPORATE CULTURE

The corporate culture of the Company comprises four components: corporate mission, corporate vision, FEHORIZON spirit, and talent concept. Our corporate mission: Safer and more efficient production and operation for customers. Our corporate vision: To be the trustworthy equipment operation service provider. FEHORIZON spirit: Resolution to seek after truth, rigorous and practical style, idea of renewal and innovation, courage to face difficulties, relentless and constant desire, aspiration and responsibility, heroic and fearless spirit. Talent concept: Strive to create a fair, impartial and open competitive growth platform so that honest, hardworking and dedicated employees can get due rewards and recognition in a clear, pure and clean working environment. The Company adheres to the "Four-Regardless" Talent Concept – Regardless of Age, Regardless of Length of Service, Regardless of Seniority, and Regardless of Educational Background, All Only About Contribution.

CORPORATE GOVERNANCE REPORT

The Company believes that a healthy corporate culture is the core of good corporate governance, and all Directors must act with integrity, lead by example, and promote the Company's corporate culture. The Company pays attention to the communication and promotion of corporate culture, and abides by accountability and review, enabling all management and employees to understand the core value of corporate culture and proper behavior, as well as continually reinforcing across the organisation values of acting lawfully, ethically and responsibly. The Company has incorporated the publicity of corporate culture into various employee training materials, work reporting procedures, topic discussions and other aspects, formulated and strengthened the employee code of conduct and talent management system, strengthened and improved the communication mechanism between management and employees, and found out the employees' recognition to the corporate culture or issues identified through various channels.

The Company has formulated anti-corruption and whistleblowing policies and code of conduct to ensure continuous compliance with anti-corruption policies and regulations. Employees are encouraged to report corruption, bribery, fraud and unethical behavior. The Company also enhances publicity on anti-corruption and whistleblowing policies in daily employee training.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix C3 to the Listing Rules as its code of conduct regarding dealings in securities of the Company by its Directors and relevant employees.

Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the Model Code throughout the period from the Listing Date to 31 December 2023.

BOARD OF DIRECTORS

The Company is headed by an effective Board which assumes responsibility for its leadership and control and is collectively responsible for promoting the Company's success by directing and supervising the Company's affairs. The Directors take decisions objectively in the best interests of the Company.

The Board has a balance of skills, experience, and diversity of perspectives appropriate to the requirements of the Company's business. The Board regularly reviews the contribution of each Director to fulfill his/her duties to the Company and whether the Directors have devoted sufficient time to fulfilling their duties that are commensurate with their role and board responsibilities. The Board includes a balanced composition of executive Directors and non-executive Directors (including independent non-executive directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

CORPORATE GOVERNANCE REPORT

COMPOSITION OF THE BOARD

The Board currently comprises 11 members, consisting of 2 executive Directors, 5 non-executive Directors and 4 independent non-executive Directors.

The list of all Directors, which also specifies the post(s) held by each Director, is set out in "Corporate Information" on page 4. The list of independent non-executive Directors is disclosed in all corporate communications issued pursuant to the Listing Rules.

For the year ended 31 December 2023 and as at the date of this report, the Board of the Company comprised the following Directors:

Executive Directors:
Mr. PAN Yang *(Chief Executive Officer)*
Mr. TANG Li *(Co-Chief Financial Officer)*

Non-executive Directors:
Mr. KONG Fanxing *(Chairman)*
Mr. XU Huibin
Mr. HE Ziming
Mr. LI Qianjin
Ms. GUO Lina

Independent non-executive Directors:
Mr. LIU Jialin
Mr. XU Min
Ms. JIN Jinping
Mr. SUM Siu Kei

None of the members of the Board is related to other members of the Board.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibilities between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority. The positions of Chairman and Chief Executive Officer are currently held by Mr. KONG Fanxing and Mr. PAN Yang, respectively. Their respective responsibilities have been clearly established and set out in writing. The Chairman takes the primary responsibility for providing leadership for the Board in accordance with good corporate governance practices and is responsible for the effective operation of the Board, while the Chief Executive Officer is responsible for the management of the Group's business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the period from the Listing Date to 31 December 2023, the Board has at all times complied with the requirement of Rule 3.10(1) of the Listing Rules, which stipulates that every board of directors of a listed issuer must include at least three independent non-executive directors, the requirement of Rule 3.10(2) of the Listing Rules, which stipulates that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise, and the requirement of Rule 3.10A of the Listing Rules, which stipulates that independent non-executive directors must account for at least one-third of the board.

The Company has received an annual confirmation in writing from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company has satisfied itself with the independence of all independent non-executive Directors.

BOARD INDEPENDENCE EVALUATION

The Company recognizes the importance of the Board independence to Corporate Governance. In particular, in order to ensure the strong independence of the Board and make ensure that the Board can obtain independent views and opinions, the following mechanisms are required: 1) in assessing the qualification of potential candidates to become independent Directors of the Company, the Nomination Committee and the Board will consider, among other things, whether the candidates are able to dedicate sufficient time to fulfill their duties as independent Directors of the Company and the candidates' backgrounds and qualifications, in order to assess whether such candidates are able to bring an independent view to the Board; and 2) the Nomination Committee is authorized to assess the independence of all independent non-executive Directors on an annual basis with reference to the independence criteria set out in the Listing Rules so as to ensure that they can continue to exercise independent judgment.

CORPORATE GOVERNANCE REPORT

All Directors have full and timely access to all information of the Company and to the advice and services of the company secretary and senior management. Directors are generally entitled to seek independent professional advice on the discharge of their duties to the Company in appropriate circumstances upon request and at our Company's expense.

At the same time, the Company has formulated internal policies (including but not limited to the Company's Articles of Association, the terms of reference of the Remuneration Committee, the Audit Committee and the Nomination Committee) to ensure that the Board is provided with independent views and opinions. For the year ended 31 December 2023, the Company has reviewed the implementation and effectiveness of the above mechanism and is of the view that the above mechanism is able to ensure that the Board is provided with independent views and opinions.

NON-EXECUTIVE DIRECTORS AND DIRECTORS RE-ELECTION

Code Provision B.2.2 of the Corporate Governance Code provides that each Director (including those designated for a specific term) shall be subject to retirement by rotation at least once every three years.

Subject to Article 16.2 of the Company's Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director, either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election at that meeting.

Subject to Article 16.3 of the Company's Articles of Association, the Company may from time to time in general meeting by ordinary resolution increase or reduce the number of Directors but so that the number of Directors shall never be less than two. Subject to the provisions of the Company's Articles of Association and the Companies Act, the Company may by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

Subject to Article 16.18 of the Company's Articles of Association, 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 number nearest to, but not less than, one-third) shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat.

The Directors of the Company (including executive Directors, non-executive Directors and independent non-executive Directors) are appointed for a term of three years and shall be subject to retirement by rotation at least once every three years.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board shall assume the responsibility for the leadership and supervision of the Company and shall be jointly responsible for directing and supervising the affairs of the Company.

The Board, directly and indirectly through its committees, leads and guides the management, which includes setting and monitoring the implementation of strategies, overseeing the Group's operations and financial performance to ensure that good internal control and risk management systems are in place.

All Directors (including non-executive Directors and independent non-executive Directors) provide a wide range of business experience, knowledge and expertise for the efficient operation of the Board.

The independent non-executive Directors are responsible for ensuring that the Company has high standards of regulatory reporting and for providing a balancing act to the Board, enabling the Board to exercise effective independent judgment in relation to corporate actions and operations.

All Directors shall ensure that they perform their duties in good faith, comply with applicable laws and regulations and act for the benefit of the Company and its Shareholders at all times.

Directors are required to disclose to the Company details of other positions held by them and the Board regularly reviews the contribution of each Director necessary to fulfil their responsibilities to the Company.

The Board reserves the right to make decisions on all important matters relating to the Company's policy matters, strategy and budget, internal control and risk management, corporate governance, major transactions (in particular those that may involve conflicts of interest), financial information, appointment of Directors and other important operational matters. The responsibilities of executing Board decisions, directing and coordinating the daily operation and management of the Company are delegated to the management.

The Company has put in place appropriate insurance arrangements for its Directors and senior management against legal actions and/or litigation liabilities that may be incurred as a result of the Company's activities.

CONTINUOUS PROFESSIONAL DEVELOPMENT FOR DIRECTORS

The Board should keep abreast of regulatory developments and changes in order to perform its duties effectively and ensure that their contribution to the Board is informed and relevant.

Each new Director will receive a formal, comprehensive and tailor-made induction program upon his/her first appointment to ensure that he/she has a proper understanding of the Company's business and operations and is fully aware of the duties and obligations of a Director under the Listing Rules and relevant statutory requirements.

CORPORATE GOVERNANCE REPORT

Directors are expected to engage in appropriate continuous professional development to develop and refresh their knowledge and skills in order to ensure that their contribution to the Board is informed and relevant. Internal circulars for Directors will be arranged and reading materials on relevant topics (where applicable) will be issued to Directors. All Directors are encouraged to attend relevant training courses at the Company's expense.

For the year ended 31 December 2023, all Directors participated in appropriate continuous professional development activities by reading, among other things, regulatory updates and seminar information as well as papers and circulars provided by the Company. As part of the continuous professional development program, arranged and funded by the Company, the Directors are also encouraged to attend various briefings and visits to the management and facilities of the Company to emphasize the roles, functions and responsibilities of the Directors. Details are set out below:

Directors	Reading the relevant material	Attending seminars/ visiting/interviewing key management
Executive Directors		
Mr. PAN Yang	✓	✓
Mr. TANG Li	✓	✓
Non-executive Directors		
Mr. KONG Fanxing	✓	✓
Mr. XU Huibin	✓	✓
Mr. HE Ziming	✓	✓
Mr. LI Qianjin	✓	✓
Ms. GUO Lina	✓	✓
Independent non-executive Directors		
Mr. LIU Jialin	✓	✓
Mr. XU Min	✓	✓
Ms. JIN Jinping	✓	✓
Mr. SUM Siu Kei	✓	✓

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY AND GENDER DIVERSITY

The Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Board has adopted the board diversity policy (the "Board Diversity Policy") which sets out the objective and approach to achieve and maintain diversity of our Board for the purpose of ensuring that the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board.

Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors when selecting the candidates to our Board, including but not limited to gender, skills, age, professional experience, knowledge, cultural and education background, ethnicity and length of service. The ultimate decision of appointment will be based on merit and the contribution that the selected candidates will bring to our Board. A summary of the Board Diversity Policy is set out as follows:

Purpose:	The Board Diversity Policy sets out the approach to Board diversity.
Policy Statement:	The Company recognizes and embraces the benefits of having a diverse Board, and sees diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the perspectives, professional experience, talents, skills, knowledge, cultural and education background, gender, age, ethnicity, length of service and other qualities of the members of the Board. These differences will be considered in determining the optimal composition of the Board and when possible should be balanced appropriately. All appointments of the members of the Board are made on merits, in the content of perspectives, talents, skills and experience the Board considers valid as a whole. The nomination committee of the Company (the "Nomination Committee") reviews and assesses the composition of the Board and makes recommendations to the Board on appointment of new directors of the Company, and oversees the conduct of the annual review of the effectiveness of the Board. The Nomination Committee also develops and maintains this Policy and periodically reviews the effectiveness of this Policy and whether the measurable objectives are achieved and/or should be amended. The Nomination Committee will disclose the Policy (or a summary thereof) and the progress towards achieving the measurable objectives in the Company's Corporate Governance Report. In reviewing and assessing the composition of the Board, the Nomination Committee will consider the benefits of all aspects of diversity, including without limitation, those described above, in order to maintain an appropriate range and balance of perspectives, talents, skills, experience and background on the Board as a whole.

CORPORATE GOVERNANCE REPORT

	In recommending candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board. In overseeing the conduct of the annual review of the effectiveness of the Board, the Nomination Committee will consider the balance of perspectives, talents, skills, experience, independence and knowledge on the Board and the diversity representation of the Board.
Measurable Objectives:	The Nomination Committee will discuss and agree annually all measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.
Review of the Policy:	The Nomination Committee will review the policy annually, which will include an assessment of the effectiveness of the policy. The Nomination Committee will discuss any revisions that may be required and recommend any such revisions to the Board for approval.

The Nomination Committee is responsible for ensuring the diversity of the Board members and will review the Board Diversity Policy from time to time to ensure its continued effectiveness.

Currently, the Board consists of eleven members who have accounting or financial expertise, legal professional qualifications, financial investment experience, or experience related to the industry where the Company operates, two of whom are female Directors. The Nomination Committee has reviewed the policy concerning the diversity of Board members and believes that the Board has already had a diverse mix of gender, skills, knowledge and experience. The Company will strive to achieve gender balance of the Board through the following measures to be implemented by the Nomination Committee in accordance with the Board Diversity Policy. We will actively identify female individuals suitably qualified to become the Board members. To further ensure gender diversity of the Board in the long run, the Group will take opportunities to increase the proportion of female members of the Board, identify and select several female individuals with a diverse range of skills, experience and knowledge in different fields from time to time, and maintain a list of such female individuals who possess qualities to become the Board members, which will be reviewed by the Nomination Committee periodically in order to develop a pipeline of potential successors to the Board to promote gender diversity of the Board.

In addition, as at 31 December 2023, female employees accounted for 9.9% of all employees of the Company (including senior management). The Company will adopt measures to maintain gender diversity among all employees (including senior management). The Company plans to offer all-rounded trainings to female employees whom we consider to have the suitable experience, skills and knowledge of our operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development.

CORPORATE GOVERNANCE REPORT

POLICY FOR THE NOMINATION OF DIRECTORS

The Company has adopted policy for the nomination of Directors, which is included in the terms of reference of the Nomination Committee. The Nomination Committee shall develop, review and implement, as appropriate, the policy, criteria and procedures for the identification, selection and nomination of candidates for Directors for the Board's approval; and identify individuals who are suitably qualified to become Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships; and assess the independence of the independent non-executive Directors. A summary of the policy for the nomination of Directors and related nomination procedures is set out as follows:

(i) To review the structure, size and composition of the Board (including the skills, knowledge, gender, age, cultural and educational background, independence and experience) at least annually, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. Make full consideration about the followings before making proposal, to ensure the diversity of the Board: The Board shall be composed of members having accounting or financial expertise, legal professional qualification, financial investment experience or industry experience related to the Company;

(ii) To review the policy for the diversity of the Board and the measurable objectives that the Board has set for implementing such policy and the progress on achieving the objectives, as appropriate;

(iii) To develop, review and implement, as appropriate, the policy, criteria and procedures for the identification, selection and nomination of candidates for directorship for the Board's approval;

(iv) To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(v) To assess the independence of independent non-executive Directors;

(vi) To evaluate the performance of Directors, and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive;

(vii) Other matters required by laws, administrative regulations, rules, and the securities regulatory authorities of the jurisdictions where the shares of the Company are listed, and as may be authorized by the Board.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established four committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Environmental, Social and Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Environmental, Social and Governance Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors or non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 4.

AUDIT COMMITTEE

The Audit Committee comprises three members, all of whom are independent non-executive Directors, namely, Mr. XU Min (Chairman of the Committee), Mr. SUM Siu Kei, and Ms. JIN Jinping. Mr. XU Min possesses the appropriate accounting or related financial management expertise pursuant to Rule 3.10(2) and Rule 3.21 of the Listing Rules.

The primary duties of the Audit Committee include, but are not limited to, the following:

- To review the financial information
- To review the relationship with the external auditors
- To review financial reporting system, risk management and internal control system
- To review the annual budget and final accounts

The Audit Committee is also responsible for performing the corporate governance duties which are set out under "Corporate Governance" on page 74.

The Audit Committee held three meetings during the period from the Listing Date of the Company to 31 December 2023 to review the financial results and reports, financial reporting and compliance procedures, scope of work and appointment of external auditors and other related matters. The attendance records of the Audit Committee are set out under "Attendance Record of Directors and Committee Members" on page 71.

The Audit Committee also met the external auditors three times without the presence of the executive Directors.

The Company's annual results for the year ended 31 December 2023 have been reviewed by the Audit Committee.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, including two independent non-executive Directors (namely, Ms. JIN Jinping (Chairwoman) and Mr. LIU Jialin), and one non-executive Director (namely, Ms. GUO Lina). The majority of them are independent non-executive Directors.

The primary duties of the Remuneration Committee include, but are not limited to, the following:

- make recommendations to the Board on the policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy
- review and approve the management's remuneration proposals with reference to the corporate goals and objectives stated by the Board
- make recommendations on the remuneration packages of individual executive Directors and senior management to the Board
- make recommendations to the Board on the remuneration of non-executive Directors

Due to the fact that the shares of the Company were not listed until 25 May 2023, the Remuneration Committee did not hold any meetings during the reporting period.

NOMINATION COMMITTEE

The Nomination Committee consists of three members, including two independent non-executive Directors (namely, Ms. JIN Jinping (Chairwoman) and Mr. LIU Jialin), and one non-executive Director (namely, Mr. XU Huibin). The majority of them are independent non-executive directors.

The primary duties of the Nomination Committee include, but are not limited to, the following:

- review the structure, size and composition of the Board at least annually, to ensure the diversity of the Board
- review the diversity policy of the Board and the measurable objectives that the Board has set for implementing such policy and the progress of achieving the objectives, as appropriate
- assess the independence of independent non-executive Directors
- assess the performance of Directors, and make recommendations to the Board on the appointment or reappointment of Directors and succession planning of Directors

CORPORATE GOVERNANCE REPORT

The criteria adopted by the Nomination Committee in considering whether the relevant personnel are suitable to be Directors include their character, qualifications, experience, expertise and knowledge, as well as provisions of the Listing Rules. In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Board Diversity Policy of the Company, including but not limited to views, professional experience, talents, skills, knowledge, cultural and educational background, gender, age, ethnicity, length of service and other qualities, and would make full consideration about the diversity of the Board before making proposal, to ensure that the Board shall be composed of members having accounting or financial expertise, legal professional qualification, financial investment experience or industry experiences related to the Company. The Nomination Committee would identify personnel suitably qualified for election as Directors and select or make recommendations to the Board on the selection of relevant personnel for nomination as Directors.

Due to the fact that the shares of the Company were not listed until 25 May 2023, the Nomination Committee did not hold any meetings during the reporting period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

The Environmental, Social and Governance ("ESG") Committee consists of three members, namely, Mr. SUM Siu Kei (an independent non-executive Director and chairman of the Committee), Mr. XU Min (an independent non-executive Director) and Mr. HE Ziming (a non-executive Director). The majority of them are independent non-executive directors.

The primary function of the Environmental, Social and Governance Committee is to direct, review and monitor the environmental, social and governance policies and practices of the Company to improve the governance structure of the Company and strengthen the decision-making function of the Board with respect to environmental, social and governance matters.

Due to the fact that the shares of the Company were not listed until 25 May 2023, the Environmental, Social and Governance Committee did not hold any meetings during the reporting period.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORDS OF DIRECTORS AND COMMITTEES

During the period from the Listing Date to 31 December 2023, three Board meetings were held and among which, three regular Board meetings were held at approximately quarterly intervals since the Listing Date for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance record of each Director during their tenure of the Board and Board Committee meeting(s) and the general meeting of the Company held during the period from the Listing Date of the Company to 31 December 2023 is set out in the table below:

	Attendance/Number of Meetings					
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Environmental, Social and Governance Committee	Annual General Meeting
Executive Directors						
Mr. PAN Yang	3/3	N/A	N/A	N/A	N/A	1/1
Mr. TANG Li	3/3	N/A	N/A	N/A	N/A	0/1
Non-executive Directors						
Mr. KONG Fanxing	3/3	N/A	N/A	N/A	N/A	0/1
Mr. XU Huibin	3/3	N/A	N/A	0/0	N/A	0/1
Mr. HE Ziming	3/3	N/A	N/A	N/A	0/0	0/1
Mr. LI Qianjin	3/3	N/A	N/A	N/A	N/A	0/1
Ms. GUO Lina	3/3	N/A	0/0	N/A	N/A	0/1
Independent non-executive Directors						
Mr. LIU Jialin	3/3	N/A	0/0	0/0	N/A	0/1
Mr. XU Min	3/3	3/3	N/A	N/A	0/0	0/1
Ms. JIN Jinping	3/3	2/3	0/0	0/0	N/A	0/1
Mr. SUM Siu Kei	3/3	3/3	N/A	N/A	0/0	0/1

Apart from the Board meetings stated above, the Chairman of the Board also held a meeting with the independent non-executive Directors on 8 August 2023 without the presence of other Directors.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but 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 Company has established the Environmental, Social and Governance Committee, the Audit Committee and the Internal Audit Department.

The Environmental, Social and Governance Committee is responsible for, among other things, environmental, social and governance risks and opportunities relating to the Company, assessing the effect of such risks or opportunities on the Group, and provide suggestions to the Board regarding the response to risks or opportunities and implement the Company's environmental, social and governance activities in general.

The Audit Committee is responsible for discussing the risk management and internal control systems with the management to ensure that the management has performed its duty to build an effective system, and to conduct research on major investigation findings on risk management and internal control matters, as well as the management's response to these findings on its own initiative or as delegated by the Board. Meanwhile, as for the internal audit function of the Company, the Audit Committee is responsible for ensuring that the internal audit function is adequately resourced and has appropriate standing within the Company, and for discussing and monitoring its effectiveness.

The operation of the Internal Audit Department of the Company is independent from the business operation and management of the Company. It reports directly to the Audit Committee on a regular basis and performs independent audits of the reasonableness, completeness and effectiveness of the operational management and risk controls. There are three segments under the Internal Audit Department, namely Business Audit Department, Supervision and Security Department and Procurement Internal Control Department. The Internal Audit Department sets up work plans and arranges resources to ensure supervision and assessment of the key control aspects, including but not limited to operational monitoring, financial monitoring, compliance monitoring, information security and management duties supervision.

During the course of its audits, the Internal Audit Department is authorized to comprehensively inspect, analyze, evaluate and audit all of the businesses and operational procedures to identify any material issues or risk matters, and to provide advices for improvement and rectification. The Internal Audit Department is also the main communication channel with relevant external regulatory entities, such as courts and public safety bureaus. The Internal Audit Department conducts follow-up audits to monitor the updated status of previously identified issues to ensure corrective and remedial measures have been duly implemented and are enforced. It also evaluates the non-compliance of the risk management policies and procedures by key personnel in the operational process, and may make recommendations to the senior management and the Board to impose certain penalties.

CORPORATE GOVERNANCE REPORT

The Audit Committee will report to the Board on any issues identified by the Internal Audit Department and make recommendations to the Board in due course. The Board at least annually conducts a review of the effectiveness of the Company and its subsidiaries' internal control systems. Such review covers all material controls, including financial, operational and compliance controls and risk management functions. The Company takes the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission of Hong Kong as the Company's basis of identification of inside information, to ensure the timely report of inside information to the executive directors and maintain communication with the Board.

Meanwhile, the Company handles and disseminates the inside information according to the related policy of the Company to ensure that the inside information is kept confidential before being approved for dissemination and the relevant information will be released effectively and consistently. 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 Board, as supported by the Audit Committee as well as the management report, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2023, and no matters of concern were identified in the review and no changes to the relevant systems were implemented by the Company during the year, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and staff qualifications, experiences and relevant resources.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2023.

The Board shall conduct a balanced, clear and understandable assessment in the annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. When the Directors are aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties would be clearly and prominently set out and discussed in detail in this Corporate Governance Report.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report".

Where appropriate, a statement will be submitted by the Audit Committee explaining its recommendation regarding the selection, appointment, resignation or dismissal of external auditors and the reasons why the Board has taken a different view from that of the Audit Committee.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

The remuneration paid/payable to the Company's external auditors of the Company in respect of audit services and non-audit services for the year ended 31 December 2023 is set out below:

Type of services provided by the external auditors	Amount of fees
	RMB'000
Audit services	**4,590**
Non-audit service	**975**
Total	**5,565**

The Group's non-audit service fees mainly comprise of: (i) interim review service fee amounted to RMB800 thousand; and (ii) tax service fee amounted to RMB17 thousand.

CORPORATE GOVERNANCE

The Audit Committee is responsible for performing the corporate governance duties including:

(a) to develop and review the Company's policy and practices on corporate governance and make recommendations to the Board;

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

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

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

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

The Board has reviewed the Shareholders' Communication Policy on a regular basis to ensure its effectiveness as well as the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Employee Written Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. CHIU Ming King ("Mr. Chiu") was appointed as the company secretary of the Company on 28 May 2021.

Mr. Chiu was nominated by Vistra Corporate Services (HK) Limited, an external service provider, and engaged by the Company as its company secretary. His primary contact person at the Company is Mr. PAN Yang, the current executive Director and chief executive officer of the Company.

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

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, the Company will put forward a separate resolution for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules, and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

CONVENING A GENERAL MEETING

Pursuant to Article 12.3 of the Articles of Association of the Company, general meetings shall also be convened on the written requisition of any one or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and the resolutions to be added to the meeting agenda, and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the voting rights, on a one vote per share basis, of the issued shares of the Company which as at that date carries the right to vote at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

PUTTING FORWARD PROPOSALS AT GENERAL MEETING

There is no provision in the Memorandum and Articles of Association of the Company empowering Shareholders any rights to make any proposals at an annual general meeting or at an extraordinary general meeting not convened by such Shareholders.

Shareholders who wish to put forward proposals at general meetings may refer to the preceding paragraph to make a written requisition to require the convening of an extraordinary general meeting of the Company.

CORPORATE GOVERNANCE REPORT

PUTTING FORWARD ENQUIRIES TO THE BOARD

For putting forward any enquiries to the Board of the Company, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong
Email:	hcd-ir@fehorizon.com
Attention:	Board of Directors

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full names, contact details and identification for the Company to response. Shareholders' information may be disclosed as required by laws.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/INVESTOR RELATION

The Company considers that effective communication with Shareholders is essential for enhancing investor relation and investors' understanding of the Group's business performance and strategies.

The Company has established a Shareholders' Communication Policy with the objective of ensuring that the Company's Shareholders and, in appropriate circumstances, ordinary investors, are provided with comprehensive, equal and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile) in a timely manner, in order to enable Shareholders to exercise their powers in an informed manner, and to allow Shareholders and investors to engage actively with the Company. The Policy also sets out multiple key channels to ensure effective and efficient communication with Shareholders and other stakeholders, including but not limited to the Company's financial reports (including interim and annual reports), annual general meetings and other general meetings that may be held, all information disclosed on the website of the Stock Exchange, as well as corporate communications published on the official website of the Company and other publications published on the Company's website.

The Company endeavors to maintain an on-going dialogue with Shareholders, in particular, through annual general meetings and other general meetings.

CORPORATE GOVERNANCE REPORT

Code Provision F.2.2 of the Corporate Governance Code stipulates that, among others, the chairman of the board should attend the annual general meeting of the listed issuers and shall also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate), or in their absence, another member of the committee, to attend and be available to answer questions at the annual general meeting.

At the annual general meeting of the Company held on 28 June 2023 (the "AGM"), Mr. KONG Fanxing (Chairman of the Board), Mr. XU Min (Chairman of Audit Committee and member of Environmental, Social and Governance Committee), Ms. JIN Jinping (Chairwoman of Nomination Committee and Remuneration Committee and member of Audit Committee), Mr. SUM Siu Kei (Chairman of Environmental, Social and Governance Committee and member of Audit Committee), Mr. XU Huibin (member of Nomination Committee), Mr. HE Ziming (member of Environmental, Social and Governance Committee), Ms. GUO Lina (member of Remuneration Committee) and Mr. LIU Jialin (member of Nomination Committee and Remuneration Committee) were unable to attend due to other work commitments. In order to ensure smooth holding of the AGM, Mr. PAN Yang (executive director and Chief Executive Officer) chaired the AGM and answered questions where necessary.

During the year, the Company also strengthened communication with Shareholders and investors through various channels, such as online and offline shareholder-investor exchange activities, results conferences, non-deal roadshows, participation in various investor forums, which allows investors to have a more comprehensive interpretation and analysis of the Group's business philosophy and operating conditions. The Company's corporate website has three languages: English, traditional Chinese and simplified Chinese, and has a section of investor relation, which converges all regulatory announcements, reports and circulars published on the website of the Hong Kong Stock Exchange for Shareholders and investors' reference, while the other sections of the corporate website provide latest information on all aspects of the Group's operations. Through the above communication measures and procedures with investors and Shareholders, the Company has examined and reviewed the effectiveness of the relevant policies on communication with investors and Shareholders during the reporting period and considers that the above policies and measures can safeguard the effective communication between the Company and investors and Shareholders.

On 11 April 2023, the Company passed a special resolution to adopt the Third Amended and Restated Memorandum and Articles of Association with effect from the Listing date. An up-to-date version of the Company's Memorandum and Articles of Association is also available on the Company's website and the Stock Exchange's website. Except for the above, there were no material changes in the Company's constitutional documents during the reporting period.

The Company has adopted a policy on payment of dividends pursuant to code provision F.1.1 of the CG Code taking into consideration of various elements including, but not limited to, the Group's actual and expected financial performance, the level of the Group's debts to equity ratio, return on equity and financial covenants, general economic conditions, business cycle of the Group's business, etc.. The Company endeavors to maintain a balance between its Shareholders' interests and the Group's business operation as well as its long-term development goal.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Mr. KONG Fanxing (孔繁星先生) – Non-executive Director, Chairman of the Board

Mr. KONG Fanxing (孔繁星先生), aged 60, is a non-executive Director and the Chairman of the Board of the Company. Mr. Kong received an EMBA degree from Peking University in March 2005, a master's degree in Economics and a bachelor's degree in Economics from University of International Business and Economics (對外經濟貿易大學) in China in June 1991 and July 1986, respectively. Mr. Kong joined Sinochem Group in August 1991. During the period which Mr. Kong worked for Sinochem Group, he had been the general manager of Sinochem International Engineering Trade Company (中化國際工程貿易公司), the deputy general manager of Sinochem International Industrial Company (中化國際實業公司), the deputy general manager, general manager of Sinochem International Tendering Co., Ltd. (中化國際招標有限責任公司), the deputy chief of the fertilizer division of China National Chemicals Import & Export Corporation (中國化工進出口總公司), the executive deputy general manager of Sinochem International Fertilizer Trading Company (中化國際化肥貿易公司), etc., respectively. In April 2001, he joined International Far Eastern Leasing Co., Ltd. (遠東國際融資租賃有限公司) and has become an executive director and the general manager since then. Mr. Kong has been the President and Chief Executive Officer of Far East Horizon Limited (a company listed on the Stock Exchange, stock code: 3360) since September 2009, and has been the chairman of the board of Far East Horizon Limited since December 2022. Currently, Mr. Kong is also an executive director and general manager of International Far Eastern Leasing Co., Ltd., the chairman and general manager of Far East Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信(天津)融資租賃有限公司), Far East Horizon Financial Leasing Co., Ltd. (遠東宏信融資租賃有限公司), Far East Horizon Inclusive Financial Leasing (Tianjin) Co., Limited (遠東宏信普惠融資租賃(天津)有限公司) and Far East Horizon Leasing (Guangdong) Co., Ltd. (遠東宏信融資租賃(廣東)有限公司), the executive director and general manager of Shanghai Donghong Industrial Development Co., Ltd. (上海東泓實業發展有限公司), Donghong Investment Co., Ltd. (東泓投資有限公司) and Yuanhong Investment (Guangdong) Co., Ltd. (遠宏投資(廣東)有限公司), an executive director of Far East Horizon Healthcare Industry Development Co., Ltd. (遠東宏信健康產業發展有限公司) and Far East Horizon Industrial Investment (Tianjin) Co., Ltd. (遠東宏信實業投資(天津)有限公司) and a director of Far East Horizon Shipping Holdings Co., Ltd. (遠東宏信航運控股有限公司), etc.

Mr. Kong has over 29 years of experience in enterprise management.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Mr. PAN Yang (潘陽先生) – Executive Director, Chief Executive Officer

Mr. PAN Yang (潘陽先生), aged 47, is an executive Director and the Chief Executive Officer of the Company. Mr. Pan received a bachelor's degree in Marketing from Liaoning University (遼寧大學) in China in July 1999, a master's degree in International Financial Markets from University of Southampton (南安普敦大學) in United Kingdom in February 2003 and a master's degree in Business Administration from Fudan University (復旦大學) in June 2015. He joined Far East Horizon in June 2003 and successively held positions including the project manager and group leader of business division III, the quality-control manager of project management center of quality-control department, the assigned chief quality-control officer of shipping system department, the assistant general manager of shipping system department, the deputy general manager of transportation system department, the executive deputy general manager of transportation & logistics system department (in charge of routine work), the general manager of public utilities department III, the co-general manager of asset center, and a vice president of Far East Horizon. Mr. Pan served as a director of Horizon Construction Overseas (Hong Kong) Limited (宏信建發海外(香港)有限公司) from May 2022 to December 2022.

Mr. Pan has over 19 years of experience in financial leasing. Mr. Pan has also served as a director and the general manager of Tianjin Horizon Construction Development Investment Co., Ltd.* (天津宏信建發投資有限公司) ("Tianjin Horizon Construction Development") since May 2022, a director and the general manager of Shanghai Horizon Construction Development Co., Ltd.* (上海宏信建設發展有限公司) ("Shanghai Horizon Construction Development") since June 2022, a director and the general manager of Shanghai Horizon Equipment & Engineering Co., Ltd.* (上海宏信設備工程有限公司) ("Shanghai Horizon Equipment & Engineering") since June 2022, a director and the general manager of Shanghai Hongjin Equipment & Engineering Co., Ltd.* (上海宏金設備工程有限公司) ("Shanghai Hongjin Equipment & Engineering") since June 2022, the general manager of Guangzhou Hongtu Equipment & Engineering Co., Ltd.* (廣州宏途設備工程有限公司) (Guangzhou Hongtu Equipment & Engineering) since June 2022, a director and the general manager of Shanghai Horizon Construction Technology Co., Ltd. (上海宏信建築科技有限公司) since May 2022, a director and the general manager of Shanghai Horizon Engineering Technology Co., Ltd. (上海宏信工程技術有限公司) since May 2022, a director and the general manager of Tianjin Horizon Equipment Leasing Co., Ltd.* (天津宏信设备租賃有限公司) ("Tianjin Horizon Equipment Leasing") since May 2022, a director and the general manager of Tianjin Horizon Construction Development Leasing Co., Ltd.* (天津宏信建發租賃有限公司) ("Tianjin Horizon Construction Development Leasing") since May 2022, a director of Horizon Construction (Hong Kong) Limited since May 2022, respectively.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Mr. TANG Li (唐立先生) – Executive Director, Co-Chief Financial Officer

Mr. TANG Li (唐立先生), aged 43, is an executive Director and the co-chief financial officer of the Company (appointed as the chief financial officer of the Company on 28 May 2021 and served as the co-chief financial officer of the Company since January 2024). Mr. Tang obtained a college diploma with a major in Accounting from Lixin Accounting College (立信會計高等專科學校) (currently known as Shanghai Lixin University of Accounting and Finance (上海立信會計金融學院)) in July 2002, and an undergraduate diploma with a major in Accounting from Tongji University (同濟大學) in January 2007.

Mr. Tang has over 19 years of experience in auditing, accounting and financial management. Mr. Tang worked at Shanghai Shenqiang Investment Co., Ltd. (上海申強投資有限公司) and Capital Dragon City (Shanghai) Commercial Land Co., Ltd. (凱德龍城(上海)商用置業有限公司) prior to joining Far East Horizon in May 2008. From May 2008 to June 2019, Mr. Tang worked at Far East Horizon, where he was primarily responsible for the accounting and financial management and successively served as the accounting assistant of finance department, the accounting manager of finance department, the accounting management manager of finance department, the deputy manager and the assistant to director (in charge of work) of finance department, the financial director of textile system business division, and the financial director of industrial and equipment business division and the senior strategic operation director of industrial and equipment business division. From April 2020 to October 2020, Mr. Tang served as a director of Shanghai Horizon Construction Development. From January 2015 to March 2021, Mr. Tang also served as the chief financial officer of Guangzhou Kangda Industrial Technology Co., Ltd. (廣州康大工業科技產業有限公司). Mr. Tang served as a director of Horizon Construction Overseas (Hong Kong) Limited (宏信建發海外(香港)有限公司) from April 2021 to December 2022. Currently, Mr. Tang is also the chief financial officer of Shanghai Horizon Construction Development, Tianjin Horizon Equipment Leasing, Shanghai Horizon Equipment & Engineering, Guangzhou Hongtu Equipment & Engineering, Tianjin Horizon Construction Development Investment, Shanghai Hongjin Equipment & Engineering, Shanghai Horizon Construction Technology Co., Ltd., Tianjin Horizon Construction Development Leasing and Shanghai Horizon Engineering Technology Co., Ltd.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Mr. XU Huibin (徐會斌先生) – Non-executive Director

Mr. XU Huibin (徐會斌先生), whose former name was XU Huibing (徐會兵), aged 51, is a non-executive Director and a member of the Nomination Committee of the Company. Mr. Xu obtained a bachelor's degree in engineering with a major in industrial electric automation from University of Science and Technology Beijing (北京科技大學) in July 1995, an undergraduate diploma with a major in finance from Zhongnan University of Economics and Law (中南財經政法大學) in June 2003, and a master's degree in business administration from Fudan University (復旦大學) in June 2005.

Mr. Xu has over 14 years of experience in risk control and operation management. From December 2007 to May 2008, Mr. Xu worked at International Far Eastern Leasing Co., Ltd.* (遠東國際融資租賃有限公司), where he served as the deputy general manager of the construction group and was primarily responsible for business operations and overall risk control. From May 2008 to December 2018, Mr. Xu worked at Far East Horizon, where he was primarily responsible for business operations and overall risk control and successively served as the deputy general manager of the construction group, the deputy general manager of business operation center, and the general manager of the business operation center. Mr. Xu served as a director of Shanghai Horizon Construction Development from March 2020 to March 2021. He has also been the general manager of strategic center and the assistant to the chief executive officer of Far East Horizon since December 2018 and December 2021, respectively.

Mr. Xu was granted the qualification of mid-level economist (financial economics) by the Ministry of Personnel of the PRC (中華人民共和國人事部) in November 1999 and the qualification of financial risk manager by the Global Association of Risk Professionals in April 2008.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Mr. HE Ziming (何子明先生) – Non-executive Director

Mr. HE Ziming (何子明先生), aged 68, is a non-executive Director and a member of the Environmental, Social and Governance Committee of the Company. Mr. He has been the executive director and the general manager of Shanghai LanJin Stone Decoration Co., Ltd.* (上海藍金石材裝飾有限公司), a company principally engaged in the production and sales of stone, since March 1998, the general manager and an executive director of Shanghai Lanjin Construction Machinery Leasing Co., Ltd. (上海藍金建築機械租賃有限公司), a company principally engaged in the machinery and leasing, since March 2004, the consultant of the strategic center of Far East Horizon since January 2020.

Mr. He has over 23 years of experience in corporate operations management. From May 2013 to December 2018, Mr. He served as the special consultant to the general manager of the construction group of Far East Horizon, where he was primarily responsible for engineering and construction operations. From December 2018 to December 2019, Mr. He served as, the deputy general manager of Shanghai Zhenjing Industrial Development Co., Ltd. (上海臻璟實業發展有限公司), a company principally engaged in property and consulting, where he was primarily responsible for engineering and construction operation. From July 2013 to December 2018, Mr. He served as the general manager of Shanghai Hongjin Equipment & Engineering. Mr. He served as a director of Shanghai Horizon Construction Development from March 2020 to March 2021.

Mr. He obtained a college diploma with a major in electronics from Shanghai Television University (上海電視大學) (currently known as Shanghai Open University (上海開放大學)) in the PRC in February 1982. Mr. He was appointed as the vice president of the association of socket-type ringlock scaffold in China (中國承插型盤扣式腳手架品質聯盟), a member of the standards committee (標準委員會) and the vice president of the green development branch concerning China building aluminum alloy formwork (中國建築鋁合金模板綠色發展分會) under China Construction Materials Rental Contractor Association (中國基建物資租賃承包協會) in March 2016, November 2016 and December 2017, respectively. In 2016 and 2017, Mr. He was awarded as the top ten influential figures in China's construction materials leasing and contracting industry.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Mr. LI Qianjin (李前進先生) – Non-executive Director

Mr. LI Qianjin (李前進先生), aged 52, is a non-executive Director of the Company. Mr. Li obtained a college diploma with a major in Machinery Technology and Equipment from Zhengzhou Industrial College (鄭州工業高等專科學校) (currently known as Henan University of Technology) in July 1994, an in-service bachelor's diploma with a major in Management Engineering from China University of Mining and Technology (中國礦業大學) in June 2005, a master's degree in Business Administration from Xi'an University of Architecture and Technology (西安建築科技大學) in June 2014.

Mr. Li has over 29 years of experience in construction machinery operations and management. After joining XCMG Group Construction Machinery Co., Ltd. (徐工集團工程機械股份有限公司) (a company listed on the Main Board of the Shenzhen Stock Exchange, stock code: 000425) in August 1994, Mr. Li has been working in the company since then. During his service, Mr. Li successively served as a designer, engineer, chief, manager and director in Xuzhou Heavy Machinery Factory (徐州重型機械廠); the deputy director (in charge of work) and the director of technology cooperation department (工藝協作部), the director of manufacturing department of Jinshan bridge manufacturing base (金山橋製造基地), the director of construction and manufacturing department and assistant to general manager, and the deputy general manager of Xuzhou Heavy Machinery Co., Ltd. (徐州重型機械有限公司); the deputy general manager of Xuzhou XCMG Schwing Machinery Co., Ltd. (徐州徐工施維英機械有限公司); the general manager and deputy secretary of Party committee of XCMG Brazil Manufacturing Co., Ltd. (徐工巴西製造有限公司), the general manager and deputy secretary of Party committee of XCMG Fire-Fighting Safety Equipment Co., Ltd. (徐工消防安全裝備有限公司). Mr. Li has been the assistant to general manager of XCMG Group since January 2022, the general manager and the secretary of the Party committee of XCMG Fire-Fighting Safety Equipment Co., Ltd. (徐工消防安全裝備有限公司) since January 2022.

Mr. Li was also granted the qualification of senior engineer (正高級工程師) by Jiangsu Mechanical Engineering Senior Professional Technique Qualification Evaluation Committee (江蘇省機械工程高級專業技術資格評審委員會) in November 2019.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Ms. GUO Lina (郭麗娜女士) – Non-executive Director

Ms. GUO Lina (郭麗娜女士), aged 46, is a non-executive Director and a member of the Remuneration Committee of the Company. Ms. Guo obtained a bachelor's degree in Economics with a major in International Economics and Trade from Beijing Wuzi University (北京物資學院) in July 2000, a master's degree in Human Resources Management from Durham University in the United Kingdom in January 2007, and a master's degree in Applied Psychology from Peking University (北京大學) in January 2009.

Ms. Guo has over 15 years of experience in human resources management. From August 2000 to August 2004, Ms. Guo worked for Sinochem International Tendering Co., Ltd. (中化國際招標有限責任公司) (currently known as Sinochem Commerce Co., Ltd. (中化商務有限公司)) as a business manager. From July 2007 to March 2010, Ms. Guo was employed as a human resources consultant by ManpowerGroup (China) Human Resources Co., Ltd. (萬寶盛華人力資源(中國)有限公司). From October 2011 to June 2012, Ms. Guo worked for EDF (China) Investment Co., Ltd. (EDF(中國)投資有限公司) as the head of human resources department. After joining Far East Horizon in June 2012, Ms. Guo has worked there since then, and successively served as the human resources manager, the human resources director of the education group, the director of the integrated operation management center of human resources department and the senior director of cadre management department of human resources department. Furthermore, Ms. Guo has also been a director of Hebei Asset Management Co., Ltd. (河北省資產管理有限公司) since December 2020.

Mr. LIU Jialin (劉嘉凌先生) – Independent Non-executive Director

Mr. LIU Jialin (劉嘉凌先生), aged 61, is an independent non-executive Director and a member of the Nomination Committee and the Remuneration Committee of the Company. From 1992 to 2007, Mr. Liu worked at Morgan Stanley, and served as a member of each of the Corporate Management Committee and Asia Executive Committee, as well as a Managing Director in the Fixed Income Division in Hong Kong. Mr. Liu is the managing director of Cinda International Asset Management Limited (信達國際資產管理有限公司) and an independent non-executive director of Far East Horizon Limited. Mr. Liu has 35 years of experience in finance and securities industry.

Mr. Liu served as an independent non-executive director of Changyou Alliance Group Limited (a company listed on the Stock Exchange, stock code: 1039) from April 2017 to July 2023.

Mr. Liu obtained a bachelor's degree in Science from Peking University and a degree of Master of Science in Physics from Massachusetts Institute of Technology.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Mr. XU Min – Independent Non-executive Director

Mr. XU Min, aged 60, is an independent non-executive Director, the chairman of the Audit Committee and a member of the Environmental, Social and Governance Committee of the Company. Mr. Xu obtained a bachelor's degree in Science with a major in Geography from East China Normal University (華東師範大學) in July 1985 and a master's degree in Arts with a major in Urban Geography from the University of Toronto in Canada in March 1989.

Mr. Xu has over 25 years of experience in accounting. After joining KPMG ("KPMG") in December 1997, Mr. Xu has worked there since then, and was engaged in auditing in KPMG Shanghai; engaged in the M&A financial advisory business in KPMG Shanghai, Hangzhou and Beijing; and became a partner of KPMG China in 2005. From October 2010 to June 2015, Mr. Xu acted as the private equity fund leading partner of KPMG China, in charge of the M&A financial advisory business of KPMG's northern region. From April 2015 to September 2018, Mr. Xu led the advisory business in M&A and restructuring, strategy, risk management and other areas of KPMG's northern region of China. From April 2015 to July 2020, Mr. Xu served as the legal representative of Beijing Branch of KPMG Enterprise Consulting (China) Co., Ltd. (畢馬威企業諮詢(中國)有限公司北京分公司), where he was primarily responsible for corporate operations and management. From May 2018 to September 2020, Mr. Xu served as a managing partner of northern China region of KPMG, where he was primarily responsible for market strategy and daily operations management.

Mr. Xu was also certified as a chartered accountant by The Institute of Chartered Accountants of Ontario, Canada in December 1996 and a merger and acquisition dealer by the China Mergers and Acquisitions Association (中國併購公會) in February 2015.

Ms. JIN Jinping (金錦萍女士) – Independent Non-executive Director

Ms. JIN Jinping (金錦萍女士), aged 51, is an independent non-executive Director, the chairman of the Nomination Committee and the Remuneration Committee and a member of the Audit Committee of the Company. Ms. Jin obtained a bachelor's degree in Economic Law from Peking University in the PRC in July 1995, a master's degree in Civil and Commercial Law from Peking University in the PRC in July 2001, and a doctorate degree in Civil and Commercial Law from Peking University in the PRC in June 2004.

Ms. Jin has over 24 years of experience in law. Ms. Jin has served as an associate professor of Peking University Law School and director of the Non-profit Organization Law Research Center of the Law School since September 2006. She has served as an independent director of Beijing Orient Zhongke Integration Technology Co., Ltd. (北京東方中科集成科技股份有限公司) (a company listed on the Main Board of the Shenzhen Stock Exchange stock, stock code: 002819) since July 2018, an independent director of Beijing UCAS Technology Co., Ltd. (北京國科環宇科技股份有限公司) since December 2018, and an independent director of China Automotive Engineering Research Institute Co., Ltd. (中國汽車工程研究院股份有限公司) (a company listed on the Main Board of the Shanghai Stock Exchange, stock code: 601965) since January 2020.

Ms. Jin also obtained a lawyer qualification granted by the Ministry of Justice of the PRC in June 1997 and higher education teacher qualification granted by the Beijing Municipal Education Commission in December 2008. Ms. Jin has served as a director of the China Red Cross Foundation since September 2016.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Mr. SUM Siu Kei (岑兆基先生) – Independent Non-executive Director

Mr. SUM Siu Kei (岑兆基先生), aged 47, is an independent non-executive Director, the chairman of the Environmental, Social and Governance Committee and a member of the Audit Committee of the Company. Mr. Sum obtained a bachelor's degree of Science in Mathematics and a master's degree of Philosophy in Mathematics from Hong Kong University of Science and Technology in Hong Kong in November 1998 and November 2000, respectively.

Mr. Sum has over 21 years of experience in finance, business management and education. From 2006 to 2008, Mr. Sum was a private portfolio investor. From January 2009 to August 2015, Mr. Sum acted as an investment representative of KGI Hong Kong Limited. From September 2012 to January 2015, Mr. Sum was a visiting lecturer at Hong Kong Community College of The Hong Kong Polytechnic University in the PRC. Mr. Sum has been the senior programme director and principal lecturer at Institute for China Business (中國商業學院) of Hong Kong University (香港大學) since September 2017, where he is mainly responsible for academic and administrative management at the Department of Finance and teaching subjects related to investment, accounting, finance and business management.

Mr. Sum also holds the professional qualification of ESG Planner from the International Council for Sustainable Development.

Mr. DENG Huanan (鄧華南先生) – Co-Chief Financial Officer

Mr. DENG Huanan (鄧華南先生), aged 43, is the co-chief financial officer of the Company. Mr. Deng obtained a bachelor's degree in Financial Management from Hubei University (湖北大學) in 2001 and a master's degree in Accounting from Fudan University (復旦大學) in 2016. Mr. Deng worked for two listed companies, namely Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司) (a company listed on both the Main Board of the Shanghai Stock Exchange and the Stock Exchange, stock code on the Shanghai Stock Exchange: 600585, stock code on the Stock Exchange: 0914) and Cathay Biotech Inc. (上海凱賽生物技術股份有限公司) (a company listed on the Main Board of the Shanghai Stock Exchange, stock code: 688065), and joined Far East Horizon in 2009. During his employment with Far East Horizon, Mr. Deng served as the director of the finance department of the Urban Utilities Segment (城市公用事業部), the director of the finance department of Shanghai Horizon Equipment & Engineering Co., Ltd., the director of the finance department of the Infrastructure Construction Segment (建設系統事業部), and the director of the finance department of Guangzhou Kangda Industrial Technology Co., Ltd. (廣州康大工業科技有限公司) and other positions. In January 2024, Mr. Deng joined the Company as the co-chief financial officer.

Mr. Deng has over 23 years of experience in financial management.

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILES

Mr. YU Guang (虞光先生) – Chief Operational Officer (Until December 2023)

Mr. YU Guang (虞光先生), aged 37, was appointed as the chief operational officer of the Company in 2021, and resigned in December 2023. Mr. Yu has been the deputy general manager of Shanghai Hongjin Equipment & Engineering since January 2017, the deputy general manager of Shanghai Horizon Construction Development, Guangzhou Hongtu Equipment & Engineering, Tianjin Horizon Equipment Leasing and Shanghai Horizon Equipment & Engineering from December 2018 to December 2023, the deputy general manager of Tianjin Horizon Construction Development Investment from June 2019 to December 2023, the deputy general manager of Shanghai Horizon Construction Technology Co., Ltd. (上海宏信建築科技有限公司) and Tianjin Horizon Construction Development Leasing from April 2020 to December 2023, and the deputy general manager of Shanghai Horizon Engineering Technology Co., Ltd. (上海宏信工程技術有限公司) from September 2020 to December 2023.

Mr. Yu has over 12 years of experience in operations management.

Mr. SHEN Liang (沈亮先生) – Chief Operational Officer

Mr. SHEN Liang (沈亮先生), aged 47, serves as the chief operational officer of the Company. Mr. Shen obtained a bachelor's degree in investment economics from Jiangxi University of Finance and Economics (江西財經大學) in 1999 and an FMBA from Cheung Kong Graduate School of Business (長江商學院) in 2017. Mr. Shen worked at Bank of China (中國銀行) and China Chengxin Securities Rating Co., Ltd. (中誠信證券評估有限公司), and joined Far East Horizon in 2007. During the period which he worked for Far East Horizon, Mr. Shen served as a deputy general manager of the industrial and equipment business division, a deputy general manager of the business operation center and a senior director of the operation center and other positions. In December 2023, Mr. Shen joined the Company as the chief operational officer.

Mr. Shen has over 24 years of experience in corporate business operations and risk management.

DIRECTORS' REPORT

The Board is pleased to present the Directors' Report of the year 2023 together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal business of the Group is equipment operation service. An analysis of the Group's operational status for the year by business segments is detailed in Note 5 to the financial statements.

As one of the leading equipment operation service providers in China, the Group has comprehensive equipment offerings and strong service capacities, while maintaining an industry-leading position in aerial work platform equipment operation, neo-excavation support system operation and neo-formwork system operation service markets. Leveraging the synergies among its various product lines and diversified service categories, the Group believes that its comprehensive and multi-dimensional services covering the full cycle of projects enable the Group to enhance our market competitiveness and customer stickiness. The Group has fostered a diverse, blue chip, loyal and high-quality customer base, the number of our outlets ranked first in China among all equipment operation service providers, and our proven digitalization capabilities continuously enhance the operational efficiency and customer service capabilities of the Group.

In addition, the Group has consistently adhered to the philosophy of steady and prudent operation in its long-term business operation process, and well understands that the sustainability of business development and growth also relies heavily on the Group's ability to respond to or manage various major risks and uncertainties, such as customer credit risks, inventory risks, accident risks of leased equipment and so forth. The Group has accumulated advanced risk management capability and practical experience in the industry over the past ten years of development, while benefiting from the genes and culture of standardized management from Far East Horizon (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 3360), the holding company of our Company, the Group values the importance of standardized management and have implemented high standards on risk management and internal control to facilitate our business growth. In the foreseeable future, the Group believes that the impact of the risks and uncertainties will remain manageable and will not cause any material adverse effect on its long-term healthy development.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2023 are set out in the Consolidated Statement of Profit or Loss on page 115 of this annual report.

The Board does not recommend the payment of a final dividend for the twelve months ended 31 December 2023.

DIRECTORS' REPORT

CLOSURE OF SHARE REGISTER

The annual general meeting of the Company (the "AGM") is scheduled to be held on Tuesday, 4 June 2024. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 30 May 2024 to Tuesday, 4 June 2024, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. (Hong Kong time) on Wednesday, 29 May 2024, being the last registration date.

RESULTS/BUSINESS REVIEW

The restatement and fair review of the business of the Group for the year ended 31 December 2023, 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 2023, and an indication of likely future development in the Group's business, are set out in the "Chairman's Statement", "Chief Executive Officer's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to Financial Statements" sections of this annual report. The above sections form a part of the Directors' Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group believes that environment, health and safety are indispensable pillars for sustainable business, and is committed to integrating this philosophy into all aspects of daily business operations. In 2023, the Group's business achieved environmentally friendly and safe operation. For a discussion of the Group's environmental policies and performance, please refer to the "Corporate Governance Report" and "Corporate Social Responsibility Report" of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, to the knowledge of the Directors of the Company, the Group has complied with all the relevant laws and regulations that have a significant impact on the Group.

PROPERTY, PLANT AND EQUIPMENT

The movements in the Group's property, plant and equipment for the year are set out in Note 14 to the financial statements.

DIRECTORS' REPORT

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 29 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any shares of the Company from the Listing Date up to 31 December 2023.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Memorandum and Articles of Association of the Company or the relevant laws of the Cayman Islands where the Company is incorporated, under which the Company would be obliged to offer new shares on a pro-rata basis to existing shareholders.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year ended 31 December 2023 are set out in the Consolidated Statement of Changes in Equity on pages 119 to 120 of this report and Note 30 to the financial statements respectively.

DONATIONS

The total amount of charity and other donations made by the Group for the year ended 31 December 2023 amounted to RMB260,000.

PERMITTED INDEMNITY

Pursuant to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director or other officer of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted. The Company has taken out insurance against all losses and liabilities associated with defending any proceedings which may be brought against Directors and other officers of the Company.

DIRECTORS' REPORT

DIRECTORS

During the year and as at the date of this annual report, Directors of the Company were as follows:

Executive Directors
Mr. PAN Yang *(Chief Executive Officer)*
Mr. TANG Li *(Co-Chief Financial Officer)*

Non-Executive Directors
Mr. KONG Fanxing *(Chairman)*
Mr. XU Huibin
Mr. HE Ziming
Mr. LI Qianjin
Ms. GUO Lina

Independent Non-Executive Directors
Mr. LIU Jialin
Mr. XU Min
Ms. JIN Jinping
Mr. SUM Siu Kei

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and senior management are set out on pages 78 to 87 of this annual report.

CHANGES IN DIRECTORS' INFORMATION

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

Mr. TANG Li has served as the co-chief financial officer since 9 January 2024.

DIRECTORS' REPORT

DIRECTORS' SERVICE AGREEMENTS

For the year ended 31 December 2023, none of the Directors had a service agreement with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation during the period from the last published interim report to the date of this report.

The Directors' remuneration is determined with references to Directors' duties and responsibilities, individual performance and the results of the Group.

Executive Directors

Each of the executive Directors has entered into a service agreement with the Company. Either party has the right to give not less than three months' written notice to terminate the service agreement.

Each of the appointments of Mr. PAN Yang and Mr. TANG Li is for a term of three years commencing from 25 May 2023. Under the service agreements, each of Mr. PAN Yang and Mr. TANG Li will not receive any remuneration as an executive Director. For holding other positions with the Company and other members of the Group, each of Mr. PAN Yang and Mr. TANG Li will receive an aggregate amount of the annual salaries of RMB3,898,000 and RMB1,814,000 from the Group, respectively, and is entitled to a salary and bonus payment, allowance and benefits-in-kind, at the discretion of the Board, and social welfare benefits provided under the relevant PRC laws and regulations.

Non-Executive Directors

Each of the non-executive Directors has entered into a service agreement with the Company.

Each of the appointments of Mr. KONG Fanxing, Ms. GUO Lina, Mr. XU Huibin, Mr. HE Ziming and Mr. LI Qianjin is for a term of three years commencing from 25 May 2023.

Under the service agreements, no Director's fee shall be made by the Company to each of Mr. KONG Fanxing, Mr. XU Huibin, Ms. GUO Lina and Mr. LI Qianjin. Under the appointment letters, the Company shall pay HK$420,000 p.a. as Director's fee to Mr. HE Ziming.

Independent Non-Executive Directors

Each of the independent non-executive Directors has entered into an appointment letter with the Company.

Each of the appointments of Mr. LIU Jialin, Mr. XU Min, Ms. JIN Jinping and Mr. SUM Siu Kei is for a term of three years commencing from 25 May 2023.

Under the appointment letters, the Company shall pay HK$420,000 p.a. as Director's fee to each of Mr. LIU Jialin, Mr. XU Min, Ms. JIN Jinping and Mr. SUM Siu Kei.

DIRECTORS' REPORT

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence prepared pursuant to Rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers that each of the independent non-executive Directors, namely Mr. LIU Jialin, Mr. XU Min, Ms. JIN Jinping, and Mr. SUM Siu Kei, is independent.

DIRECTORS' EMOLUMENTS AND SENIOR MANAGEMENT'S EMOLUMENTS

The Company has established the Remuneration Committee in accordance with the CG Code. The Remuneration Committee shall make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. These remuneration policies shall formulate remuneration incentive plans for Directors and senior management based upon the main scope, duties and importance of the management positions of Directors and senior management and the remuneration levels of relevant positions in other related enterprises; and remuneration incentive plans, mainly including but not limited to remuneration levels and packages, performance evaluation standards (including indicators and target values) and procedures, as well as key proposals and systems on other rewards and punishments.

During the reporting period, the Group did not implement any long-term incentive plans.

Details of the remuneration of the Directors and that of the senior management of the Group for the year ended 31 December 2023 are set out in Note 8 to the financial statements of the Group.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at any time during the year or at the end of the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2023, none of the Directors of the Company are interested in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' REPORT

NON-COMPETITION DEED OF UNDERTAKING

On 12 November 2021, Far East Horizon, the controlling shareholder of the Company, executed an enforceable non-competition deed of undertaking (the "**Deed of Undertaking**") in favor of the Company. For details of the Deed of Undertaking, please refer to the section headed "Relationship with Controlling Shareholders-Undertaking from Far East Horizon" in the Company's prospectus dated 12 May 2023.

The Company has received an annual confirmation letter from Far East Horizon, confirming that Far East Horizon and/or its associates (excluding the Group) have complied with the undertakings under the Deed of Undertaking during the year ended 31 December 2023. The independent non-executive Directors have conducted an annual review on the compliance and performance of undertakings in the Deed of Undertaking and are satisfied that the undertakings under the Deed of Undertaking have been complied with.

PENSION SCHEME

In accordance with applicable PRC regulations, the Group has made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees, details of which are set out in Note 2.4 (Summary of Significant Accounting Policies-Employee benefits) to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year ended 31 December 2023.

ARRANGEMENTS FOR THE DIRECTORS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended 31 December 2023 were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, nor were there any such rights exercised by them. Also, there was no arrangement to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries is a party that would enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' REPORT

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

As at 31 December 2023, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were detailed as follows:

(1) Interest in the Company:

Name of director	Capacity/nature of interest	Total number of ordinary Shares[(1)]	Approximate percentage of interest[(2)]
HE Ziming	Interest in a controlled corporation	176,601,000 (L)[(3)]	5.52%
	Interest of spouse	30,350,000 (L)[(4)]	0.95%

Notes:

(1) The letter "L" denotes the person's long position in the shares of the Company (the "Shares").

(2) The percentage is calculated on the basis of 3,197,244,000 Shares in issue of the Company as at 31 December 2023.

(3) Farsighted Wit Limited is wholly owned by Tianjin Hongjian Enterprise Management Consulting Center (Limited Partnership) ("Tianjin Hongjian"). The limited partner of Tianjin Hongjian holding over one third of partnership interest in Tianjin Hongjian is Tianjin Lanjin Enterprise Management Consulting Center (Limited Partnership), which is controlled by Tianjin Hongsheng Leasing Co., Ltd. ("Tianjin Hongsheng") as general partner and owned as to over one third of partnership interest by Mr. HE Ziming as limited partner. In addition, Shanghai Lanjin Stone Decoration Co., Ltd. is wholly owned by Mr. HE Ziming. Accordingly, Mr. HE Ziming is deemed to be interested in the 176,601,000 Shares held by Farsighted Wit Limited and Shanghai Lanjin Stone Decoration Co., Ltd. for the purpose of Part XV of the SFO.

(4) Ms. LIU Lifang, the spouse of Mr. HE Ziming, holds the Shares through Lanjin Limited, which was incorporated in the British Virgin Islands as an exempted company with limited liability and is wholly owned by Ms. LIU Lifang.

DIRECTORS' REPORT

(2) Interests in the Shares or Underlying Shares of Associated Corporations of the Company:

Name of the director or chief executive	Name of associated corporation	Nature of interest	Number of shares/ underlying shares[1]	Approximate percentage of interest in shares/ underlying shares of associated corporation[8]
KONG Fanxing	Far East Horizon	Beneficial owner	85,176,620(L)[2]	1.97%
		Interest in a controlled corporation	868,947,897(L)[3]	20.13%
XU Huibin	Far East Horizon	Beneficial owner	10,930,717 (L)[4]	0.25%
PAN Yang	Far East Horizon	Beneficial owner	5,589,511 (L)[5]	0.13%
GUO Lina	Far East Horizon	Beneficial owner	1,333,479 (L)[6]	0.03%
TANG Li	Far East Horizon	Beneficial owner	236,064 (L)[7]	0.01%
HE Ziming	Far East Horizon	Beneficial owner	1,206,000 (L)	0.03%
		Interest of spouse	2,832,000 (L)	0.07%
		Interest in a controlled corporation	2,201,000 (L)	0.05%
LIU Jialin	Far East Horizon	Beneficial owner	125,000 (L)	0.00%
		Interest of spouse	125,000 (L)	0.00%

Notes:

(1) The letter "L" denotes long position in the ordinary shares.

(2) These interests include Mr. KONG Fanxing's entitlement to receive shares in Far East Horizon pursuant to share schemes of Far East Horizon.

(3) These interests include 272,237,062 shares held directly by Idea Delicacy Limited, 40,726,000 shares held directly by Powerful Force HK Limited, 159,670,000 shares held directly by Will of Heaven HK Limited, 107,503,000 shares held directly by Swallow Gird HK Limited, 197,945,000 shares held directly by Energon HK Limited and an aggregate of 90,866,835 shares held directly by certain employees of Far East Horizon. All of them had unconditionally, irrevocably and permanently entrusted Idea Prosperous Limited, a company 100% owned by Mr. KONG Fanxing, to exercise the voting rights attached to the shares.

(4) These interests include Mr. XU Huibin's entitlement to receive shares in Far East Horizon pursuant to share schemes of Far East Horizon.

(5) These interests include Mr. PAN Yang's entitlement to receive shares in Far East Horizon pursuant to share schemes of Far East Horizon.

(6) These interests include Ms. GUO Lina's entitlement to receive shares in Far East Horizon pursuant to share schemes of Far East Horizon.

(7) These interests include Mr. TANG Li's entitlement to receive shares in Far East Horizon pursuant to share schemes of Far East Horizon.

(8) The percentage is calculated on the basis of 4,315,135,866 shares in issue of Far East Horizon as at 31 December 2023.

DIRECTORS' REPORT

Saved as disclosed above, as at 31 December 2023, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he/she is taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register kept by the Company pursuant of Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES

Based on the information available to the directors of the Company, as at 31 December 2023 (including such information as was available on the website of the Stock Exchange) or so far as they are aware of, as at 31 December 2023, other than the directors and chief executives of the Company, the entities or individuals who had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under section 336 of the SFO or had otherwise notified to the Company were as follows:

Name of the shareholder	Nature of interest	Number of ordinary Shares[1]	Approximate percentage of interest[2]
Far East Horizon	Beneficial owner	2,293,050,000 (L)	71.72%
	Interest in a controlled corporation	176,600,000 (L)[3]	5.52%
Farsighted Wit Limited	Beneficial owner	176,600,000 (L)[3]	5.52%
Tianjin Hongsheng	Interest in a controlled corporation	176,600,000 (L)[3]	5.52%
Tianjin Hongjian	Interest in a controlled corporation	176,600,000 (L)[3]	5.52%
Tianjin Lanjin Enterprise Management Consulting Center (Limited Partnership)	Interest in a controlled corporation	176,600,000 (L)[3]	5.52%
International Far Eastern Leasing Co., Ltd.	Interest in a controlled corporation	176,600,000 (L)[3]	5.52%
Far East Horizon (Tianjin) Financial Leasing Co., Ltd.	Interest in a controlled corporation	176,600,000 (L)[3]	5.52%

Notes:

(1) The letter "L" denotes the long position in the Shares.

(2) The percentage is calculated on the basis of 3,197,244,000 shares in issue of the Company as at 31 December 2023.

(3) Tianjin Hongsheng is owned as to 100% by Far East Horizon (Tianjin) Financial Leasing Co., Ltd., which is in turn owned as to 55.38% by Far East Horizon and 44.62% by International Far Eastern Leasing Co., Ltd. (a wholly-owned subsidiary of Far East Horizon). Please refer to Note (3) of the section headed "Directors' and Chief Executives' Interests and/or Short Positions in the Shares, Underlying Shares and Debentures of the Company or any of its Associated Corporations – (2) Interests in the Shares or Underlying Shares of Associated Corporations of the Company" for further details of the shareholding structure.

DIRECTORS' REPORT

Saved as disclosed above, as at 31 December 2023, the register required to be kept under section 336 of the SFO showed that the Company had not been notified by any person of any interest or short position in the Shares or underlying Shares.

On 6 December 2023, Far East Horizon, the controlling shareholder of the Company, proposed a declaration of special dividend to its shareholders by way of a distribution in specie of 159,819,846 ordinary Shares on the basis of one ordinary Share for every 27 ordinary shares of Far East Horizon held (the "Distribution in Specie"). The Distribution in Specie represents approximately 5% of the total number of issued Shares of the Company as at the date of the announcement. The Distribution in Specie was approved by the shareholders of Far East Horizon at the EGM held on 22 December 2023 and was distributed to the eligible shareholders of Far East Horizon on 16 January 2024. Upon completion of the Distribution in Specie, Far East Horizon owned a total of 2,133,230,172 Shares, representing approximately 66.72% of the total number of issued Shares of the Company as at the date of this report.

For details, please refer to the announcement of the Company dated 6 December 2023, the announcements of Far East Horizon dated 6 December 2023, 22 December 2023 and 16 January 2024, respectively, and the circular dated 6 December 2023.

PUBLIC FLOAT

Rule 8.08 (1) of the Listing Rules stipulates that there must be an open market in the securities for which listing is sought and the Issuer's listed securities must maintain sufficient public float. In general, at least 25% of the issuer's total number of issued share capital must at all times be held by the public. In accordance with Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% under certain circumstances in the case of issuers with an expected market capitalisation at the time of listing of over HK$10,000,000,000.

The Company had applied to the Stock Exchange, and the Stock Exchange had granted to the Company, a waiver from strict compliance with the requirement under Rule 8.08(1)(a) of the Listing Rules, provided that the minimum public float of our Company should be the higher of the following: (i) 21.80% of the total issued shares; and (ii) the percentage of shares held by the public immediately following the completion of the global offering. According to the publicly available data of the Company and as far as the Directors are aware, the Directors confirm that the Company has maintained the above minimum public float required by the Stock Exchange from the Listing Date until the date of this report.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

The information of the customers and suppliers of the Group during the year is as follows:

	For the year ended 31 December 2023 Percentage of the total income (%)
Top five customers	16.2%
The largest customer	5.7%

	For the year ended 31 December 2023 Percentage of total purchases (%)
Top five suppliers	23.4%
The largest supplier	7.7%

As far as the Directors are aware, none of the Directors, their close associates or any shareholders holding more than 5.00% shares of the Company had any interest in the top five customers or top five suppliers of the Group.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS, SUPPLIERS AND OTHERS

The Company is committed to building harmonious and mutual relationships with employees, customers, suppliers, investors, the government and the whole society and promotes the healthy, sustainable, stable and harmonious development of the industry economy and the whole society through value sharing and supply. The Company regards employees as valuable assets. For details of employees' talent development and remuneration policy, please refer to the section headed "Human Resources" under "Management Discussion and Analysis" of this annual report. The Company upholds the principle of honesty and trustworthiness, strives to provide customers with quality services and creates a reliable service environment for customers. The Company puts emphasis on the selection of suppliers, encourages fair and open competition and establishes long-term cooperation with quality suppliers on the basis of mutual trust. For the year ended 31 December 2023, the Company has had no significant dispute with its employees, customers or suppliers.

CONNECTED TRANSACTIONS

The Company entered into certain continuing connected transactions, as defined in the Listing Rules, which are subject to the disclosure requirements under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Office Seats Leasing Agreement with Far East Horizon

On 11 April 2023, the Company entered into an office seats leasing services framework agreement (the "Office Seats Leasing Agreement") with Far East Horizon, pursuant to which Far East Horizon and its associates (the "Far East Horizon Connected Persons") agreed to lease certain office seats to the Group for a term commencing from the Listing Date to 31 December 2025.

The rental to be paid by the Group under the Office Seats Leasing Agreement shall be in line with normal commercial terms and determined on arm's length basis with reference to (i) the number, area, location and lease term of the office seats; and (ii) the prevailing market rates of similar office seats leasing services provided by the Independent Third Parties. The maximum annual rental to be paid by the Group to the Far East Horizon Connected Persons in relation to the Office Seats Leasing Agreement for the year ended 31 December 2023 will not exceed RMB9,564,000. For the year ended 31 December 2023, the annual rental actually paid by the Group to the Far East Horizon Connected Persons is RMB nil.

Far East Horizon is a controlling shareholder of the Company and is therefore a connected person of the Company. The leasing of certain office seats by the Group from the Far East Horizon Connected Persons under the Office Seats Leasing Agreement constitutes a continuing connected transaction of the Company. As the highest applicable percentage ratio in respect of the annual caps of the Office Seats Leasing Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Office Seats Leasing Agreement are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For details, please refer to the section headed "Connected Transactions – Our Continuing Connected Transactions – (B) Continuing Connected Transactions Subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement – 1. Office Seats Leasing Agreement" in the Prospectus of the Company.

Construction and Decoration Services Agreement with Far East Horizon

On 11 April 2023, our Company entered into a construction and decoration services framework agreement (the "Construction and Decoration Services Agreement") with Far East Horizon, pursuant to which the Far East Horizon Connected Persons agreed to provide construction and decoration services, including but not limited to indoor and outdoor decoration such as plant decoration, water supply and drainage construction, electrical engineering, smart light current engineering system construction and maintenance, outdoor waterscape construction and secondary fire protection engineering services, to our Group from the Listing Date to 31 December 2025.

The service fees to be paid by our Group under the Construction and Decoration Services Agreement shall be in line with normal commercial terms and determined on arm's length basis with reference to (i) the status, complexity and construction period of each project, and the type, market price and costs of construction and decoration raw materials; and (ii) the prevailing market rates of comparable construction and decoration services provided by the Independent Third Parties. For the Construction and Decoration Services Agreement, the maximum total annual service fees to be paid by our Group to the Far East Horizon Connected Persons for construction and decoration services for the year ended 31 December 2023 shall not exceed RMB10,054,000. For the year ended 31 December 2023, the total service fees actually paid by the Group to the Far East Horizon Connected Persons for construction and decoration services were RMB nil.

DIRECTORS' REPORT

Far East Horizon is a controlling shareholder of the Company and is therefore a connected person of the Company. The provision of construction and decoration services by the Far East Horizon Connected Persons to the Group pursuant to the Construction and Decoration Services Agreement constitutes a continuing connected transaction of the Company. As the highest applicable percentage ratio in respect of the annual caps of the Construction and Decoration Services Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Construction and Decoration Services Agreement are subject to the reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

For details, please refer to the section headed "Connected Transactions – Our Continuing Connected Transactions – (B) Continuing Connected Transactions Subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement – 2. Construction and Decoration Services Agreement" of the Prospectus of the Company.

Material Procurement Agreement with Shangyu Boteng

On 11 April 2023, our Company entered into a materials procurement framework agreement (the "Materials Procurement Agreement") with Shaoxing Shangyu Boteng Metal Products Co., Ltd. ("Shangyu Boteng"), pursuant to which our Group agreed to purchase certain materials, including but not limited to connection accessories of ringlock scaffolds, from Shangyu Boteng and its associates during the period from the Listing Date to 31 December 2025.

The amount paid by our Group under the Materials Procurement Agreement shall be in line with normal commercial terms and determined on arm's length basis with reference to (i) the specification, model, unit price, type and quality of the materials; and (ii) the prevailing market rates of similar materials provided by the Independent Third Parties. The maximum annual procurement costs to be paid by the Group to Shangyu Boteng and its associates in relation to the Materials Procurement Agreement for the year ended 31 December 2023 will not exceed RMB165,600,000. For the year ended 31 December 2023, the procurement costs actually paid by the Group to Shangyu Boteng and its associates are RMB77,741,000.

Shangyu Boteng is an associate of Mr. HE Ziming, and is therefore a connected person of the Company. As at the Latest Practicable Date of the Company's Prospectus, Shangyu Boteng was owned as to 98% by Mr. HE Mengguang, a brother of Mr. HE Ziming, and 2% by Mr. DONG Yuejin. To the best knowledge of our Directors, Mr. DONG Yuejin is Mr. HE Ziming's cousin, therefore the Group's procurement of certain materials from Shangyu Boteng and its associates under the Materials Procurement Agreement constitutes a continuing connected transaction of the Company. As the highest applicable percentage ratio in respect of the annual caps of the Materials Procurement Agreement is more than 0.1% but less than 5%, the transactions contemplated under the Materials Procurement Agreement are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For details, please refer to the section headed "Connected Transactions — Our Continuing Connected Transactions — (B) Continuing Connected Transactions Subject to the Reporting, Annual Review and Announcement Requirements but Exempt from the Independent Shareholders' Approval Requirement — 3. Materials Procurement Agreement".

DIRECTORS' REPORT

Financing Lease Agreement with Far East Horizon

On 11 April 2023, the Company entered into a financial leasing services framework agreement (the "Financial Leasing Agreement") with Far East Horizon, pursuant to which the Far East Horizon Connected Persons agreed to provide financing lease services to our Group from the Listing Date up to 31 December 2025, including direct leasing and sale-leaseback of equipment and/or materials.

The amounts to be paid by our Group under the Financial Leasing Agreement shall be in line with normal commercial terms and determined on arm's length basis with reference to (i) the expected financing needs of our Group; (ii) the prevailing market rates of similar financial leasing services provided by the Independent Third Parties; and (iii) the benchmark leasing rates published by People's Bank of China from time to time or the rates charged by the major financial service providers for similar financial leasing services. As for the Financial Leasing Agreement, the annual maximum transaction amounts of our Group's equipment and/or materials that were under direct leasing transactions and sale-leaseback transactions with the Far East Horizon Connected Persons for the year ended 31 December 2023 shall not exceed RMB68,333,000 and RMB937,500,000, respectively. For the year ended 31 December 2023, the actual transaction amounts of our Group's equipment and/or materials that were under sale-leaseback transactions and direct leasing transactions with the Far East Horizon Connected Persons were RMB nil and RMB nil, respectively.

Far East Horizon is a controlling shareholder of the Company and is therefore a connected person of the Company. The financing lease services provided by Far East Horizon Connected Persons to our Group under the Financing Lease Agreement constitute continuing connected transactions of the Company. As the highest applicable percentage ratio in respect of the annual caps of the Financial Leasing Agreement is more than 5%, the transactions contemplated under the Financial Leasing Agreement are subject to the reporting, annual review, announcement and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

For details, please refer to the section headed "Connected Transactions – Our Continuing Connected Transactions – (C) Continuing Connected Transactions Subject to the Reporting, Annual Review, Announcement and the Independent Shareholders' Approval Requirements – 1. Financial Leasing Agreement" in the Prospectus of the Company.

Details of related party transactions of the Company for the year ended 31 December 2023 are set out in Note 35 to the consolidated financial statements. Save as the related party transactions as set out under items (1) (excluding those with Far East Horizon Leasing (Guangdong) Co., Ltd., International Far Eastern Leasing Co., Ltd. and Shanghai Yijia Construction Development Co., Ltd.), (2) and (5), all the related party transactions as set out under Note 35 constitute connected transactions of the Company under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of all such connected transactions.

DIRECTORS' REPORT

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rule 14A.55 of the Listing Rules, the continuing connected transactions set out above have been reviewed by the independent non-executive directors, who confirmed that the aforesaid continuing connected transactions were entered into:

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

CONFIRMATION OF THE AUDITOR

Pursuant to Rule 14A.56 of the Listing Rules, the Board has received a letter from the auditor of the Company, confirming that the continuing connected transactions set out above:

(a) have received the approval of the Board;

(b) have been entered into in accordance with the pricing policies of the Group;

(c) have been entered into in accordance with the relevant agreements governing the transactions; and

(d) have not exceeded the relevant annual caps for the financial year ended 31 December 2023.

AUDIT COMMITTEE

The Audit Committee comprises three members, including Mr. XU Min (Chairman), Ms. JIN Jinping and Mr. SUM Siu Kei, all of whom are independent non-executive directors (including one independent non-executive director who possesses appropriate professional qualifications or expertise in accounting or relevant finance management). They have reviewed the accounting principles and practices adopted by the Group and discussed matters regarding auditing and financial reporting, including reviewing the financial results of the Group for the year ended 31 December 2023.

The consolidated financial statements of the Company which are prepared in accordance with Hong Kong Financial Reporting Standards for the year ended 31 December 2023 have been audited by Ernst & Young, the auditor of the Company.

DIRECTORS' REPORT

AUDITOR

Pursuant to the resolution of the 2023 AGM of the Company, the Company reappointed Ernst & Young as the auditor of the Company in 2023. The Company has not changed its auditor from the Listing Date to the date of this report.

By order of the Board
KONG Fanxing
Chairman
12 March 2024

CORPORATE SOCIAL RESPONSIBILITY REPORT

PHILOSOPHY OF RESPONSIBILITY

Be Global for Shared Prosperity

Horizon Construction Development strives to become a trustworthy comprehensive equipment operation service provider and pursues a contribution to customers' safer and more efficient production and operation. With such vision and mission, Horizon Construction Development is committed to providing customers with multi-functional, multi-latitude and full-cycle comprehensive services and consistently creating value for customers, holding onto its core value of "customer first, hard work, and win-win through cooperation".

"Be global for shared prosperity" is the Group's idea about environmental, social and governance (ESG) issues, which has been factored into the corporate culture and the long-term business development strategy of the Group. The Group advances its ESG efforts and continues to raise the level of its ESG management to address the concerns of the key stakeholders, such as "environment", "customers", "employees and communities" and "investors", while endeavoring to create long-term sustainable shared value for all stakeholders.

ACCOUNTABLE TO INVESTORS

Strengthening the Governance for Laying the Foundation for High-quality Development

Horizon Construction Development has been listed on the Main Board of the Stock Exchange since 25 May 2023. Putting customers at the heart of everything it does, Horizon Construction Development conducts customer need-oriented operations, committed to providing customers with one-stop integrated comprehensive equipment operation services that are delivered on all fronts, multiple dimensions, and full cycle. On a steady growth path, Horizon Construction Development will relentlessly return its Shareholders and investors by creating higher value.

ACCOUNTABLE TO EMPLOYEES

Creating Better Lives Together with Its Valued Employees

Horizon Construction Development remains attentive to the personal lives of its employees, respects individuality and develops their differentiated talent, and emphasizes the enhancement of their sense of happiness and team cohesion. Horizon Construction Development is committed to nurturing a culture of fairness, impartiality and transparency, creating and maintaining a safe and healthy workplace, and building a growth platform that has employees' trust and dedication.

Employees' Rights and Interests

In pursuit of developing a culture of fairness, impartiality and transparency, Horizon Construction Development has constructed sound and standardized human resources management systems and rules, which clearly provide for working hours, leave, remuneration and benefits to fully protect the legitimate rights, interests, and benefits of employees. In addition, to ensure democratic management, the Group has built a democratic system which centers on the general meeting of employee representatives and the labor union and established a communication and feedback mechanism for employees. Horizon Construction Development has set up a platform dubbed "Tea Bar" to collect reasonable advice from its employees, which encourages employees to speak out and make recommendations to the Group for its operation and management. Further, the Group conducts periodic surveys on employees' devotion to work.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Horizon Construction Development persists in achieving equitable access to employment and workplace diversity. Employees are given equal opportunities in respect of recruitment, training and development, promotion, and compensation and benefits. The Group recruits capable employees regardless of age, gender, ethnicity and educational background. The Group makes contributions to the five types of social insurance and the mandatory housing fund for all employees, buys supplemental medical insurance and group personal accident insurance for employees, and provides other non-statutory benefits such as festival grants, festival bonuses to employees' parents, and meal subsidies.

Employee Development

Talents serve as the foundation and the driver of value creation, and a well-rounded and sound training system plays an important role in cultivating talent and improving corporate competitiveness. Horizon Construction Development has developed a powerful training support system to upskill each employee and help the employees build fulfilling careers to the greatest extent. Also, by establishing an online learning platform and giving an allowance to employees who have obtained qualification certificates in relation to the construction industry, the Group assists its employees with their enhancement of professional competence and builds itself into a learning organization encouraging self-evaluation, self-motivation, and self-improvement, which has created a vibe featuring lifelong learning among its people.

Employee Care

It is important to let employees know that they are under care. To this end, Horizon Construction Development has formulated the Labor Union Welfare Specifications, organizes labor union welfare events at regular intervals, and provides employees with the necessary support by extending compassionate care, regard and relief to them. In this way, the Group fully showcases its care about employees' personal lives and enhances their sense of happiness and team cohesion, while striving to build a growth platform that has employees' trust and dedication. Horizon Construction Development takes actions to express its care about employees, including compassionate care about employees, condolences from the labor union, relief from the labor union, and women's empowerment.

Employee Health and Safety

HSE is short for Health, Safety and Environment. Taking HSE management as the foundation of the Group's operations and the guarantee of the Group's sustainable development, Horizon Construction Development has established a HSE system mainly backed by the HSE Management Regulations and makes every effort to create and maintain a safe and healthy workplace freeing its employees from safety accidents and occupational diseases.

Horizon Construction Development's occupational disease risks are largely related to noise, dust and high temperature. Risk management remains the core of the Group's safety management. Bearing this core in mind, the Group has formulated occupational health related rules such as the Administrative Measures for Occupational Health Management to build a comprehensive occupational health and safety management system. The Group promotes periodic identification of occupational disease risks throughout the whole production cycle at each base, monitors occupational disease risks and addresses such risks by rectifying vulnerable spots, and bolsters its employee occupational health management through both equipment improvement and health prevention.

CORPORATE SOCIAL RESPONSIBILITY REPORT

SOCIAL WELFARE ACTIONS

Community Engagement and Development

In strict compliance with the Law of the PRC on Prevention and Control of Noise Pollution, the Law of the PRC on the Prevention and Control of Atmospheric Pollution and other laws and regulations, Horizon Construction Development has been conscious of its impact on the local communities and responded with control measures in the course of its business operations. The Group proactively participates in community engagement and development and closely aligns its development with the development of the local communities. Focusing on areas including environmental protection and voluntary blood donation, the Group attempts to promote shared prosperity and development with the communities where it operates and improve the residents' livelihood. For example, the Group has equipped its bases and project sites with 30 units of fog cannon equipment and sprinkler trucks to reduce dust and particulate matter in the air and invested an annual maintenance cost of approximately RMB500,000 to continuously reduce the impact of its air pollution on the surrounding communities. In 2023, the Group organized its staff to participate in blood donation activities in Jinshan District and Jiading District in Shanghai.

Rural Revitalization and Public Charity

In response to the "call for fully promoting rural revitalization" by the Chinese government, Horizon Construction Development has been an active participant in charitable activities and supporter of the development of various social and public undertakings, strictly abiding by the Charity Law of the PRC, the Law of the PRC on Donations for Public Welfare and other laws and regulations. In 2023, the Group made charitable donations totaling RMB260,000 in the areas of rural revitalization and emergency relief. For example, during the year, the Group provided paired assistance to certain needy groups in Waigang Town, Jiading District, Shanghai. Particularly, the staff visited poverty-stricken families in Shijin Village and provided them with financial support and daily necessities such as rice, eggs, and cooking oil. In addition, the Group made a targeted donation of RMB200,000 to the Blue Sky Rescue Team, Tianjin Binhai New Area Branch for further improving the emergency rescue equipment and assisting in the emergency rescue work including but not limited to urban search and rescue, waterside rescue, and mountain rescue in Tianjin Dongjiang Bonded Harbor Area.

CORPORATE SOCIAL RESPONSIBILITY REPORT

ACCOUNTABLE TO ENVIRONMENT

Exploring New Green Paths to Save Energy and Reduce Carbon Footprint

Continually improving its climate change management system and environmental management system, Horizon Construction Development sets targets and roadmap to achieve carbon neutrality and keeps track of the progress. Therefore, the Group can effectively manage climate-related risks while seizing climate-related opportunities and continuously better its management accordingly to minimize the carbon footprint generated from its operational activities. As regards environmental management, the Group invests "consistent efforts to energy conservation and emission reduction, low-carbon commitment and sustainable development". Energy consumption can be reduced while the green and efficient use of energy is promoted through measures such as energy conservation and efficiency enhancement as well as green reengineering on the business side and the use of new energy on the operational side. Besides, substantial improvements to society and the environment can be materialized while the sustainable development of the Company is realized.

ACCOUNTABLE TO CUSTOMERS

Improving Customer Satisfaction by Delivering Better Services

Putting customers at the center, Horizon Construction Development conducts customer need-oriented operations. It has established a customer service management system covering product consultation, after-sales service and customer satisfaction management and formulated corresponding systems and processes to constantly improve the efficiency of its customer service, committed to providing customers services on all fronts, multiple dimensions and full cycle. Meanwhile, the Group focuses on technological innovation. With the integration of IUR (Industry-University-Research) sectors, the Group constantly innovates products and techniques while focusing on the development of software systems and intelligent hardware in a bid to furnish customers with safer, more eco-friendly and more economical solutions.

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道 979號
太古坊一座27樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Horizon Construction Development Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Horizon Construction Development Limited (the "Company") and its subsidiaries (the "Group") set out on pages 115 to 224, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including 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 ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Revenue recognition</td></tr>
<tr><td>For the year ended 31 December 2023, the revenue of the Group was mainly generated from operating lease services of RMB6,130 million, engineering and technical services of RMB2,965 million and sales of goods of RMB516 million.

Generally lease income is recognised net of discount, in accordance with the terms of lease contracts over the lease term on a straight line basis. Also there are few lease arrangements where the revenue recognition is not subject to straight line basis, depending on the nature of the lease arrangements and performance of the leases.

Revenue from the provision of engineering and technical services is recognised over time, on a percentage of completion basis.

We identified revenue recognition as a key audit matter as there is an inherent risk around the accuracy of the revenue recorded given the huge transaction volumes, special terms of lease agreements and the determination of the completion progress. The determination of the completion progress involves the use of significant judgements and estimates.

The related disclosure is included in note 2.4, note 4 and note 5 to the consolidated financial statements.</td><td>We considered the appropriateness of the Group's revenue recognition accounting policies and assessed compliance with the policies in terms of HKFRSs.

We assessed and evaluated the design and operating effectiveness of the key controls, with the assistance of our IT specialists, over the process of revenue recognition.

On a sample basis, we performed test of details to:

• review the contracts entered into with the customers to identify any non-standard clauses and assess whether the revenue recognition is in compliance with the accounting policies;

• review the contracts entered into with the customers to assess whether the key contracts terms of the lease contract and engineering and technical services contract are consistent with that recorded in the IT system;

• check the statements confirmed by the customers regarding the lease items and lease term, or the construction completed;

• and re-calculated the accuracy of the revenue recognised.

We performed monthly trend and margin analysis considering both internal and external benchmarks, to compare the reported results with our expectation.

We also assessed the relevant disclosures of revenue recognition with reference to the requirements of the prevailing accounting standards.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of financial assets and contract assets	
HKFRS 9 requires the use of the "expected credit loss" ("ECL") model for the measurement of impairment allowances of financial assets and contract assets. In measuring the ECLs of financial assets and contract assets under HKFRS 9, management need to apply judgement, make necessary assumptions and select the reasonable ECL model, in aspects such as determining whether there are significant increases in credit risk, and determining the parameters and the forward-looking adjustments. As at 31 December 2023, the balance of the Group's financial assets and contract assets, including trade receivables, debt investments at fair value through other comprehensive income, other receivables, deposits and contract assets, amounted to RMB8,725 million and accounted for 27.93% of the Group's total assets. We identified impairment assessment of financial assets and contract assets as a key audit matter because of the significance of the balances and significant judgements and estimates involved in the process, including the classification of stages for measurement of ECLs and the estimation of future cash flows. The related disclosure is included in note 2.4, note 3, note 19, note 20, note 21, note 22 and note 38 to the consolidated financial statements.	We assessed and evaluated the design and operating effectiveness of the key controls, over the process of impairment assessment of financial assets and contract assets. On a sample basis, we evaluated and tested the key parameters of the ECL model, management's major judgements and related assumptions, mainly focusing on the following aspects: • Assessing the reasonableness of the ECL model and related parameters, including probability of default, loss given default, exposure at default, and significant increase in credit risk; and • Assessing the reasonableness of the management's consideration of forward-looking adjustment information when determining ECL, including the use of macroeconomic information and the judgement of adjustments. We also assessed the relevant disclosures of impairment assessment of financial assets and contract assets with reference to the requirements of the prevailing accounting standards.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT (continued)

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Benny Bing Yin Cheung.

Ernst & Young
Certified Public Accountants
Hong Kong
12 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	Notes	2023	2022
		For the year ended 31 December	
		RMB'000	RMB'000
			(Restated)*
REVENUE	5	**9,610,581**	7,877,646
Cost of sales	7	**(5,849,180)**	(4,744,640)
Gross profit		**3,761,401**	3,133,006
Other income and gains	6	**210,092**	157,582
Selling and distribution expenses	7	**(516,062)**	(340,804)
Administrative expenses	7	**(1,077,348)**	(863,778)
Expected credit losses ("ECLs") of financial and contract assets, net	7	**(283,471)**	(110,114)
Other expenses	7	**(33,926)**	(157,270)
Finance costs	10	**(834,163)**	(924,818)
PROFIT BEFORE TAX	7	**1,226,523**	893,804
Income tax expense	11	**(264,116)**	(229,469)
PROFIT FOR THE YEAR		**962,407**	664,335
Attributable to:			
Owners of the parent		**962,407**	664,335
		962,407	664,335
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13	RMB	RMB
Basic			
Earnings per share		**0.32**	0.23
Diluted			
Earnings per share		**0.32**	0.23

* The consolidated financial information has been restated to meet the disclosure requirement of the adoption of the amendments to HKAS 12.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
		(Restated)*
PROFIT FOR THE YEAR	**962,407**	664,335
Other comprehensive income that may be reclassified to profit or loss in the subsequent periods:		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	**(324)**	(2,257)
Income tax effect	**387**	–
Exchange differences:		
Exchange differences on translation of foreign operations	**(84)**	(31)
Net other comprehensive income that may be reclassified to profit or loss in the subsequent periods	**(21)**	(2,288)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(21)**	(2,288)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**962,386**	662,047
Attributable to:		
Owners of the parent	**962,386**	662,047

* The consolidated financial information has been restated to meet the disclosure requirement of the adoption of the amendments to HKAS 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2023

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000 (Restated)*
NON-CURRENT ASSETS			
Property, plant and equipment	14	**18,221,107**	19,102,390
Right-of-use assets	15(a)	**978,426**	335,222
Other intangible assets	16	**3,745**	3,797
Prepayments, other receivables and other assets	20	**563,206**	174,980
Deferred tax assets	17	**348,590**	329,681
Derivative financial instruments	27	**–**	2,379
Total non-current assets		**20,115,074**	19,948,449
CURRENT ASSETS			
Inventories	18	**170,211**	186,217
Trade receivables	19	**5,029,820**	4,486,990
Contract assets	21	**383,863**	304,295
Prepayments, other receivables and other assets	20	**2,121,599**	2,103,819
Debt investments at fair value through other comprehensive income	22	**1,236,738**	1,036,355
Derivative financial instruments	27	**12,658**	–
Restricted bank balances	23	**14**	62,944
Cash and cash equivalents	23	**2,166,798**	2,159,325
Total current assets		**11,121,701**	10,339,945
CURRENT LIABILITIES			
Trade and bills payables	24	**1,552,487**	1,109,794
Other payables and accruals	25	**668,839**	736,808
Interest-bearing bank and other borrowings	26	**6,694,592**	6,143,418
Lease liabilities	15(b)	**192,013**	59,927
Tax payables		**173,588**	141,020
Total current liabilities		**9,281,519**	8,190,967
NET CURRENT ASSETS		**1,840,182**	2,148,978
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,955,256**	22,097,427

Continued/…

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended 31 December 2023

		31 December 2023	31 December 2022
	Notes	RMB'000	RMB'000
			(Restated)*
NON-CURRENT LIABILITIES			
Other payables and accruals	25	**13,849**	266,266
Derivative financial instruments	27	**2,581**	2,257
Interest-bearing bank and other borrowings	26	**10,644,640**	15,068,696
Lease liabilities	15(b)	**501,591**	71,332
Deferred revenue	28	**14,928**	16,684
Total non-current liabilities		**11,177,589**	15,425,235
Net assets		**10,777,667**	6,672,192
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**421**	370
Reserves	30	**10,777,246**	6,671,822
Total equity		**10,777,667**	6,672,192

* The consolidated financial information has been restated to meet the disclosure requirement of the adoption of the amendments to HKAS 12.

Pan Yang
Director

Tang Li
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to owners of the parent							
	Share capital	Share premium*	Merger reserve*	Capital reserve*	Special reserve*	Other comprehensive income*	Retained profits*	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 29)	(note 30)	(note 30)	(note 30)	(note 30)			
At 31 December 2022	370	6,066,695	(29,862)	(1,281,820)	92,151	(2,288)	1,829,989	6,675,235
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	–	–	–	–	–	–	(3,043)	(3,043)
At 1 January 2023 (restated)**	370	6,066,695	(29,862)	(1,281,820)	92,151	(2,288)	1,826,946	6,672,192
Profit for the year	–	–	–	–	–	–	962,407	962,407
Other comprehensive income for the year:								
Cash flow hedges, net of tax	–	–	–	–	–	63	–	63
Exchange differences on translation of foreign operations	–	–	–	–	–	(84)	–	(84)
Total comprehensive income for the year	–	–	–	–	–	(21)	962,407	962,386
Issue of shares	51	1,488,278	–	–	–	–	–	1,488,329
Share issue expenses	–	(21,516)	–	–	–	–	–	(21,516)
The termination of the redemption obligation of ordinary shares (note 30)	–	–	–	1,676,276	–	–	–	1,676,276
Special reserve – safety fund appropriation	–	–	–	–	21,604	–	(21,604)	–
At 31 December 2023	421	7,533,457	(29,862)	394,456	113,755	(2,309)	2,767,749	10,777,667

* These reserve accounts comprise the consolidated reserves of RMB10,777,246,000 in the consolidated statements of financial position as at 31 December 2023 (2022: RMB6,671,822,000).

** The consolidated financial information has been restated to meet the disclosure requirement of the adoption of the amendments to HKAS 12.

Continued/…

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to owners of the parent							
	Share capital	Share premium*	Merger reserve*	Capital reserve*	Special reserve*	Other comprehensive income*	Retained profits*	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 29)	(note 30)	(note 30)	(note 30)	(note 30)			
At 31 December 2021	370	6,066,695	(29,862)	(1,281,820)	54,976	–	1,200,602	6,010,961
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	–	–	–	–	–	–	(816)	(816)
At 1 January 2022 (restated)**	370	6,066,695	(29,862)	(1,281,820)	54,976	–	1,199,786	6,010,145
Profit for the year (restated)**	–	–	–	–	–	–	664,335	664,335
Other comprehensive income	–	–	–	–	–	(2,288)	–	(2,288)
Total comprehensive income for the year (restated)**	–	–	–	–	–	(2,288)	664,335	662,047
Special reserve – safety fund appropriation	–	–	–	–	37,175	–	(37,175)	–
At 31 December 2022 (restated)**	370	6,066,695	(29,862)	(1,281,820)	92,151	(2,288)	1,826,946	6,672,192

** The consolidated financial information has been restated to meet the disclosure requirement of the adoption of the amendments to HKAS 12.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

		For the year ended 31 December	
	Notes	**2023**	2022
		RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,226,523**	893,804
Adjustments for:			
Finance costs	10	**834,163**	924,818
Gains on financial assets at fair value through profit or loss	6	**(4,128)**	(69)
Fair value gains on derivative instruments – not for hedge accounting	6	**(10,279)**	(9,286)
Gain on disposal of items of property, plant and equipment and early termination of right-of-use assets	6	**(3,412)**	(22,824)
Loss on scrapped and physical items of property, plant and equipment	7	**1,643**	5,142
ECLs on financial and contract assets, net	7	**283,471**	110,114
Impairment of inventories	7	**–**	19,063
Impairment of repossessed assets	7	**52,872**	–
Depreciation of property, plant and equipment	14	**2,312,898**	2,194,927
Depreciation of right-of-use assets	15(a)	**121,457**	77,700
Amortisation of other intangible assets	16	**840**	814
Deferred revenue	28	**(1,756)**	(586)
Additional value-added tax (VAT) reduction	6	**(60,304)**	(42,125)
Provision	6	**(7,584)**	–
Exchange loss	7	**19,190**	139,519
		4,765,594	4,291,011
Decrease in inventories		**16,006**	86,085
Increase in trade receivables		**(1,021,277)**	(385,059)
Increase in debt investments at fair value through other comprehensive income		**(315,390)**	(588,472)
Decrease in prepayments, other receivables and other assets		**626,761**	496,523
Increase in contract assets		**(93,843)**	(27,212)
Increase/(decrease) in trade and bills payables		**369,126**	(112,909)
Decrease in other payables and accruals		**(109,159)**	(615,923)
Cash generated from operations		**4,237,818**	3,144,044
Tax paid		**(287,514)**	(321,217)
Net cash flows from operating activities		**3,950,304**	2,822,827

Continued/…

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	For the year ended 31 December	
		2023	2022
		RMB'000	RMB'000
Net cash flows from operating activities		**3,950,304**	2,822,827
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(2,434,585)**	(3,834,548)
Proceeds from disposal of items of property, plant and equipment		**598,815**	221,757
Net cash received for investments		**4,128**	150,120
Net cash flows used in investing activities		**(1,831,642)**	(3,462,671)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**1,488,329**	–
Share issue expenses		**(21,516)**	–
New bank and other borrowings	31	**5,538,716**	10,115,342
Interest paid	31	**(796,086)**	(810,078)
Deposits paid		**(225,989)**	(53,000)
Repayment of bank and other borrowings	31	**(7,946,593)**	(6,822,422)
Principal portion of lease payments, net	31	**(213,161)**	(94,133)
Decrease/(increase) in restricted deposits		**62,930**	(49,921)
Net cash flows (used in)/generated from financing activities		**(2,113,370)**	2,285,788
NET INCREASE IN CASH AND CASH EQUIVALENTS		**5,292**	1,645,944
Cash and cash equivalents at beginning of year		**2,159,325**	506,991
Effect of foreign exchange rate changes, net		**2,181**	6,390
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	**2,166,798**	2,159,325

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE AND GROUP INFORMATION

Horizon Construction Development Limited (the "Company") was incorporated in the Cayman Islands on 28 September 2020 as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands. The registered address of the Company is P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.

The Company is an investment holding company. During the reporting period, the Company and its subsidiaries (the "Group") are principally engaged in the provision of the following services:

(i) Operating lease services, including operational leasing of aerial work platform, turnover materials and mould bases; and

(ii) Engineering and technical services, including construction and related services, electric power supply services, equipment repair and maintenance services and logistics services; and

(iii) Platform and other services, including platform services (mainly referring to sub-leasing services and related maintenance services) and sales of goods (mainly referring to sale of new equipment, second-hand equipment and materials).

The immediate holding company of the Company is Far East Horizon Limited (the "Controlling Shareholder").

As at the date of this report, the Company has direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name		Place of incorporation/ registration and place of operations	Date of incorporation	Registered share capital	Percentage of equity attributable to the Company		Principal activities
					Direct	Indirect	
Horizon Construction (Hong Kong) Limited	(a)	Hong Kong	19-Dec-14	HKD1	100	–	Investment holding
Tianjin Horizon Construction Development Investment Co., Ltd. (天津宏信建發投資有限公司)	(b)	PRC/Chinese Mainland	20-Jun-19	USD 1,100,000,000	–	100	Investment holding
Shanghai Horizon Construction Development Co., Ltd. (上海宏信建設發展有限公司)	(b)	PRC/Chinese Mainland	14-Apr-14	RMB 5,550,000,000	–	100	Engineering and technical services, and sale of equipment and spare parts

Continued/…

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE AND GROUP INFORMATION (Continued)

Name		Place of incorporation/ registration and place of operations	Date of incorporation	Registered share capital	Percentage of equity attributable to the Company		Principal activities
					Direct	Indirect	
Shanghai Hongjin Equipment & Engineering Co., Ltd. (上海宏金設備工程有限公司)	(b)	PRC/Chinese Mainland	2-Aug-13	RMB 600,000,000	–	100	Engineering and technical services, operating lease services, and maintenance, installation and sale of equipment
Shanghai Horizon Equipment & Engineering Co., Ltd. (上海宏信設備工程有限公司)	(b)	PRC/Chinese Mainland	13-Jul-11	RMB 5,920,000,000	–	100	Engineering and technical services, operating lease services, and maintenance, installation and sale of equipment
Tianjin Horizon Equipment Leasing Co., Ltd. (天津宏信設備租賃有限公司)	(b)	PRC/Chinese Mainland	27-Jul-12	RMB 100,000,000	–	100	Engineering and technical services, operating lease services, and maintenance, installation and sale of equipment
Guangzhou Hongtu Equipment & Engineering Co., Ltd. (廣州宏途設備工程有限公司)	(b)	PRC/Chinese Mainland	23-Mar-15	RMB 1,133,220,000	–	100	Engineering and technical services, operating lease services, and maintenance, installation and sale of equipment
Shanghai Horizon Engineering Technology Co., Ltd. (上海宏信工程技術有限公司)	(c)	PRC/Chinese Mainland	11-Sep-20	RMB 200,000,000	–	100	Engineering and technical services, operating lease services, and sale of equipment and spare parts

Continued/…

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE AND GROUP INFORMATION (continued)

Name		Place of incorporation/ registration and place of operations	Date of incorporation	Registered share capital	Percentage of equity attributable to the Company		Principal activities
					Direct	Indirect	
Shanghai Horizon Construction Technology Co., Ltd. (上海宏信建築科技有限公司)	(c)	PRC/Chinese Mainland	20-Apr-20	RMB 200,000,000	–	100	Engineering and technical services, and operating lease services
Tianjin Horizon Construction Development Leasing Co., Ltd. (天津宏信建發租賃有限公司)	(b)	PRC/Chinese Mainland	16-Apr-20	RMB 955,000,000	–	100	Operating lease services, and sale of equipment and spare parts
Beijing Hongtu Equipment Leasing Co., Ltd. (北京宏途設備租賃有限公司)	(c)	PRC/Chinese Mainland	2-Dec-20	RMB 1,000,000	–	100	Engineering and technical services, operating lease services, and sale of equipment and spare parts
Tianjin Horizon Construction Development Engineering Technology Co., Ltd. (天津宏信建發工程技術有限公司)	(c)	PRC/Chinese Mainland	23-Nov-20	RMB 60,000,000	–	100	Engineering and technical services, operating lease services, and sale of equipment and spare parts
Tianjin Hongtu Supply Chain Management Co., Ltd. (天津宏途供應鏈管理有限公司)	(c)	PRC/Chinese Mainland	19-Nov-20	RMB 10,000,000	–	100	Supply chain management services
Horizon Construction overseas (Hong Kong) Limited	(a)	Hong Kong	29-Apr-21	HKD 10,000,000	–	100	Investment holding
HORIZON CONSTRUCTION DEVELOPMENT (SINGAPORE) PTE. LTD.	(d)	Singapore	21-Jul-21	SGD 1,000,000	–	100	Wholesale trade of a variety of goods

Continued/…

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE AND GROUP INFORMATION (continued)

Name		Place of incorporation/ registration and place of operations	Date of incorporation	Registered share capital	Percentage of equity attributable to the Company		Principal activities
					Direct	Indirect	
HORIZON CONSTRUCTION OVERSEAS (MALAYSIA) SDN. BHD.	(e)	Malaysia	8-Nov-21	MYR 1,000,000	–	100	Import and export, sale and leasing of new and used equipment
PT HORIZON CONSTRUCTION INDONESIA	(f)	Indonesia	9-Jan-23	IDR 10,931,200,000	–	100	Trade in machinery, tools and accessories; Construction and civil machinery lease
HORIZON CONSTRUCTION DEVELOPMENT OVERSEAS (VIETNAM) COMPANY LIMITED	(f)	Vietnam	16-Mar-23	VND 4,760,000,000	–	100	Engineering and technical services operating lease services, export, import, and wholesale distribution of goods
HORIZON CONSTRUCTION DEVELOPMENT (THAILAND) CO., LTD.	(f)	Thailand	10-May-23	THB 103,000,000	–	100	Trade in machinery tools and accessories; Construction and civil machinery lease
CDHORIZON FZE	(f)	The United Arab Emirates	26-Oct-23	AED 530,000	–	100	Construction equipment and machinery rental handling, loading and lifting equipment
CDHorizon Arabia Company Limited	(f)	Kingdom of Saudi Arabia	17-Dec-23	SAR 500,000	–	100	Repair and maintenance of mining and construction machinery, electrical equipment repair and maintenance of engines, generators and steam generators

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE AND GROUP INFORMATION (continued)

* The English names of all group companies registered in the PRC represent the best efforts made by the management of the Company to translate the Chinese names of these companies as they do not have official English names.

(a) The statutory financial statements of this entities for the year ended 31 December 2022 prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") were audited by Clayton Concept & Co. (機靈會計師事務所).

(b) The statutory financial statements of these entities for the year ended 31 December 2022 prepared in accordance with generally accepted accounting principles in the People's Republic of China and regulations were audited by Ernst & Young Hua Ming LLP Shanghai Branch (安永華明會計師事務所(特殊普通合夥)上海分所), a certified public accounting firm registered in the PRC.

(c) The statutory financial statements of these entities for the year ended 31 December 2022 prepared in accordance with generally accepted accounting principles in the People's Republic of China and regulations were audited by Shanghai Qianyi Certified Public Accountants Co., Ltd. (上海仟一會計師事務所有限公司), a certified public accounting firm registered in the PRC.

(d) No audited financial statements have been audited for this entity, as it had no actual operations in 2022.

(e) The statutory financial statements of this entity for the year ended 31 December 2022 prepared in accordance with Malaysia Private Entity Reporting Standard ("MPERS") were audited by Mazars PLT.

(f) No audited financial statements have been audited for these entities, as these entities were newly established in 2023.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

Prior to the initial application of these amendments, the Group applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. The Group has applied the amendments on temporary differences related to leases and decommissioning obligations as at 1 January 2022. Upon initial application of these amendments, the Group recognised (i) a deferred tax asset for all deductible temporary differences associated with lease liabilities (provided that sufficient taxable profit is available), and (ii) a deferred tax liability for all taxable temporary differences associated with right-of-use assets at 1 January 2022, with cumulative effect recognised as an adjustment to the balances of retained profits and non-controlling interests at that date. The quantitative impact on the financial statements is summarised below.

Impact on the consolidated statements of financial position:

		Increase/(decrease)		
		As at 31 December 2023	As at 31 December 2022	As at 1 January 2022
	Note	RMB'000	RMB'000	RMB'000
Assets				
Deferred tax assets	17	**(16,530)**	(3,043)	(816)
Total non-current assets		**(16,530)**	(3,043)	(816)
Total assets		**(16,530)**	(3,043)	(816)
Net assets		**(16,530)**	(3,043)	(816)
Equity				
Retained profits		**(16,530)**	(3,043)	(816)
Equity attributable to owners of the parent		**(16,530)**	(3,043)	(816)
Total equity		**(16,530)**	(3,043)	(816)

Note: The deferred tax assets and the deferred tax liabilities arising from lease contracts of the same subsidiary have been offset in the statement of financial position for presentation purposes.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

Impact on the consolidated statements of profit or loss:

	Increase/(decrease) For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Income tax expense	**13,487**	2,227
Profit for the year	**(13,487)**	(2,227)
Attributable to:		
Owners of the parent	**(13,487)**	(2,227)
Total comprehensive income attributable to:		
Owners of the parent	**(13,487)**	(2,227)

The adoption of amendments to HKAS 12 did not have any material impact on the basic and diluted earnings per share attributable to ordinary equity holders of the parent, other comprehensive income and the consolidated statements of cash flows for the years ended 31 December 2023 and 2022.

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has not yet applied the temporary exception during the current year because the entities comprising the Group are operating in jurisdictions in which the Pillar Two tax law has not yet been enacted or substantively enacted. The Group will disclose known or reasonably estimable information related to its exposure to Pillar Two income taxes in the consolidated financial statements by the time when the Pillar Two tax law has been enacted or substantively enacted and will disclose separately the current tax expense or income related to Pillar Two income taxes when it is in effect.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised HKFRSs, if applicable, when they become effective.

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 (the "2020 Amendments")*[1,4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[1,4]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*[1]
Amendments to HKAS 21	*Lack of Exchangeability*[2]

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 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

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

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 MATERIAL ACCOUNTING POLICIES

Business combinations and goodwill

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	2.38% to 19.40%
Leasehold improvements	Shorter of the remaining period of the leases and the useful life of the assets
Equipment, materials and moulds	9.00% to 32.33%
Office and other equipment	9.00% to 32.33%
Motor vehicles	18.00% to 24.25%

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement (other than the sales of second-hand equipment, of which the sales proceeds are recorded as revenue) recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Software

Software is stated at historical cost less any impairment loss and is amortised on the straight-line basis over its estimated useful life of 5 to 10 years.

The software mainly comprises Enterprise Resource Planning system (the "ERP system") and Systems Applications and Products in Data Processing system ("SAP financial system"). The management estimates the useful life of ERP system and SAP financial system as 10 years based on historical experience and estimated lifecycle of the software according to the Group's business plan.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

Leasehold land	40 to 50 years
Offices	1 to 6 years
Equipment	5 years

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

(b) Lease liabilities

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

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

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

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

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

Group as a lessor

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

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

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

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Sale and leaseback transactions

The Group acts as a seller-lessee transfers an asset to another entity (the buyer-lessor) and leases that asset back from the buyer-lessor. The Group applies the requirements for determining when a performance obligation is satisfied in HKFRS 15 to determine whether the transfer of an asset is accounted for as a sale of that asset.

When the transfer of an asset by the seller-lessee does not satisfy the requirements of HKFRS 15 to be accounted for as a sale of the asset, the Group, as the seller-lessee, continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds.

When the transfer of an asset by the seller-lessee satisfies the requirements of HKFRS 15 to be accounted for as a sale of the asset, the Group, as the seller-lessee measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Accordingly, the Group recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

Repossessed assets

Repossessed assets are initially recognised at fair value on the date of repossession, and the related trade receivables together with the related impairment allowances are derecognised from the statement of financial position. Subsequently, repossessed assets are measured at the lower of their cost and fair values less costs to sell and are presented as other assets.

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets at fair value through profit or loss

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

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on the equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets

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

General approach

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

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

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

Simplified approach

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

For lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and bills payables, other payables and accruals, derivative financial instruments, interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at amortised cost (trade and other payables, and borrowings)

After initial recognition, trade and other payables, and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.

- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.

- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Cash flow hedges (continued)

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

Other borrowings on ordinary shares with redemption obligation

For the redeemable ordinary shares issued by the Company as detailed in note 26, financial liabilities are recognised based on the net present value of the redemption amount and debited to equity. Changes of net present value during the reporting periods are recognised in profit or loss. When the redemption rights related to the redeemable ordinary shares are terminated, redemption liabilities on ordinary shares are extinguished and credited to equity.

Inventories

Inventories are goods valued at the lower of cost and net realisable value at the end of each of the reporting period. The cost of inventories issued is determined on the weighted-average basis and specific identification basis, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. The difference between the cost and the lower net realisable value is stated as a provision. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and estimated expenses and related taxes necessary to make the sale.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

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

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

Income tax

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Income tax (continued)

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

Government grants

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

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

Revenue recognition

The Group principally engaged in the operating lease services, engineering and technical services and platform and other services, the platform and other services includes the subleasing, sales of materials and sales of second-hand equipment.

Revenue from operating lease income

Operating lease income, for which the Group provides operating lease services and subleasing services, covers income from the leasing of various types of equipment and materials on a daily, weekly, monthly, yearly or project-by-project basis based on customers' needs. Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue 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) Sale of goods

Revenue from the sale of goods, including sales of materials and sales of second-hand equipment, is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(b) Engineering and technical services

Revenue from the provision of construction services is recognised over time, on a percentage of completion basis, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

Contract assets

If the Group performs by transferring goods or services to a customer before being unconditionally entitled to the consideration under the contract terms, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets. They are reclassified to trade receivables when the right to the consideration becomes unconditional.

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).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

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

Employee benefits

Salaries and bonuses, social security contributions and other short-term employee benefits are accrued in which services have been rendered by the employees of the Group.

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

Termination benefits

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

Contributions to these plans are recognised in profit or loss as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions. The functional currency of the Company is RMB.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the cumulative amount in the reserve 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 RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates or the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Significant judgement in determining the lease term of contracts with renewal options

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes the renewal period as part of the lease term due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., one to five years) and there will be a significant negative effect on production if a replacement is not readily available.

Classification between finance leases and operating leases

A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

Situations that would normally lead to a lease being classified as a finance lease include the following:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable and, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Classification between finance leases and operating leases (continued)

If it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset, the lease is classified as an operating lease. The determination of whether the Group has transferred substantially all the risks and rewards incidental to ownership depends on an assessment of the relevant arrangements relating to the lease and this involves critical judgements by management.

Determining the timing of satisfaction of construction services

The Group concluded that revenue from the construction services is recognised over time, on a percentage of completion basis, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The fact that the Group is building on the customer's construction site and the customer generally controls any work in progress arising from the Group's performance demonstrates that the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.

Classification of transactions which contain a financing element

Transactions for the purchase of materials and equipment contains financing elements such as extended payment terms. Under such arrangement, the banks will pay upon delivery of product by the supplier and the Group will subsequently settle the liability directly with banks. Management considers the underlying economic substance of the transaction and the significance of the financing element to the transaction. Judgement is required to determine the most appropriate classification and presentation of these transactions within the statements of cash flows and financial position. The economic substance of the transaction is determined to be financing in nature as the financing element is significant and the time frame in which the arrangement is extended by over 9 months within original supply terms. As a result, the entire cash flow is presented as operating and financing in the statement of cash flows. Therefore, the supplier finance arrangement was significantly different from the one in the original invoice and the liabilities were included in interest-bearing bank and other borrowings, with a total amount of RMB12,113,000 as at the end of the reporting period (2022: RMB84,649,000). There are non-cash changes showed in the consolidated statements of cash flows.

Estimation uncertainty

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

Provision for expected credit losses on financial assets ("ECLs")

The measurement of impairment losses under HKFRS 9 across debt instruments recorded at financial assets at fair value through other comprehensive income, trade receivables, financial assets included in prepayments, other receivables, other assets and contract assets require judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on financial assets ("ECLs") (continued)

The Group's ECLs calculations are outputs of appropriate models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

(i) The Group's internal credit grading model, which assigns the probability of defaults (PDs) to the individual grades

(ii) The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment

(iii) Development of ECL models, including the various formulas and the choice of inputs

(iv) Determination of associations between macroeconomic scenarios and economic inputs, and the effect on PDs, the exposure at defaults (EADs) and the loss given defaults (LGDs)

The Group will regularly review the expected credit loss model in the context of actual loss experience and adjust when necessary.

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 17 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

4. OPERATING SEGMENT INFORMATION

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

(i) Operating lease services: leasing of equipment and materials to customers and generating revenue mainly from rental fees payable by customers. The equipment and materials remain property of the Group and are leased out to different customers with same or similar requirements;

(ii) Engineering and technical services: provision of construction services, electric power supply services, equipment repair and maintenance services and logistics services, and related value-added services, and generating revenue mainly from service fees charged to customers; and

(iii) Platform and other services: subleasing and sale of equipment and materials.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that other income and gain (other than gain on disposal of items of property, plant and equipment and early termination of right-of-use assets), non-financial lease-related finance costs, ECLs of other receivables, as well as other expenses (other than loss on scrapped and physical items of property, plant and equipment).

Segment assets exclude deferred tax assets, derivative financial instruments, restricted bank balances, cash and cash equivalents as well as other receivables and other assets.

Segment liabilities exclude other payables and accruals (other than lease deposits, salary and welfare payables, advanced from customers and contract liabilities), interest-bearing bank and other borrowings, tax payables, derivative financial instruments, deferred tax liabilities and deferred revenue.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2023

	Operating lease services	Engineering and technical services	Platform and other services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue (note 5)				
Sales to external customers	5,139,275	2,964,591	1,506,715	9,610,581
Intersegment sales	–	–	–	–
Revenue from continuing operations	5,139,275	2,964,591	1,506,715	9,610,581
Segment results	1,315,092	254,904	318,987	1,888,983
Reconciliation:				
Unallocated other income and gains				206,680
Unallocated other expenses				(32,500)
Unallocated finance costs				(820,230)
Unallocated ECLs				(16,410)
Profit before tax				1,226,523
Segment assets	15,646,937	9,842,381	1,027,592	26,516,910
Reconciliation:				
Corporate and other unallocated assets				4,719,865
Total assets				31,236,775
Segment liabilities	1,825,563	811,467	57,248	2,694,278
Reconciliation:				
Corporate and other unallocated liabilities				17,764,830
Total liabilities				20,459,108
Other segment information				
Impairment losses recognised in profit or loss, net	114,179	116,237	36,645	267,061
Unallocated impairment losses of financial and contract assets				16,410
Unallocated impairment losses of repossessed assets				52,872
Total impairment losses recognised in profit or loss, net				336,343
Depreciation and amortisation	1,741,457	693,738	–	2,435,195
Capital expenditure*	1,453,508	579,029	–	2,032,537

NOTES TO FINANCIAL STATEMENTS

31 December 2023

4. OPERATING SEGMENT INFORMATION (continued)

As at and for the year ended 31 December 2022

	Operating lease services	Engineering and technical services	Platform and other services	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue (note 5)				
Sales to external customers	5,189,949	2,136,630	551,067	7,877,646
Intersegment sales	–	–	–	–
Revenue from continuing operations	5,189,949	2,136,630	551,067	7,877,646
Segment results	1,475,689	284,227	89,015	1,848,931
Reconciliation:				
Unallocated other income and gains				134,758
Unallocated other expenses				(156,693)
Unallocated finance costs				(920,359)
Unallocated ECLs				(12,833)
Profit before tax				893,804
Segment assets	20,719,199	4,912,949	127,777	25,759,925
Reconciliation:				
Corporate and other unallocated assets (restated)				4,528,469
Total assets (restated)				30,288,394
Segment liabilities	1,431,522	384,741	32,602	1,848,865
Reconciliation:				
Corporate and other unallocated liabilities (restated)				21,767,337
Total liabilities (restated)				23,616,202
Other segment information				
Impairment losses recognised in profit or loss, net	65,008	32,140	133	97,281
Unallocated impairment losses of financial and contract assets				12,833
Total impairment losses recognised in profit or loss, net				110,114
Depreciation and amortisation	1,936,988	336,453	–	2,273,441
Capital expenditure*	2,743,797	476,594	–	3,220,391

* Capital expenditure consists of additions to property, plant and equipment, and other intangible assets during the years.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

No further geographical information is presented as the Group's revenue from the external customers is derived mostly from its operation in Chinese Mainland and no significant non-current assets of the Group are located outside Chinese Mainland.

Information about major customers

Total revenue from sales to the five largest customers accounted for 16% of the Group's revenue for the years ended 31 December 2023 (2022: 18%).

5. REVENUE

An analysis of the revenue is as follows:

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue from operating lease income		
Operating lease services	**5,139,275**	5,189,949
Subleasing	**991,146**	250,319
Subtotal	**6,130,421**	5,440,268
Revenue from contracts with customers	**3,480,160**	2,437,378
Total revenue	**9,610,581**	7,877,646

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. REVENUE (continued)

Revenue from contracts with customers:

(a) Disaggregated revenue information:

For the year ended 31 December 2023

Segments	Engineering and technical services	Platform and other services	Total
	RMB'000	RMB'000	RMB'000
Type of goods or services			
Engineering and technical services	**2,964,591**	**–**	**2,964,591**
Sale of goods	**–**	**515,569**	**515,569**
Total revenue from contracts with customers	**2,964,591**	**515,569**	**3,480,160**
Timing of revenue recognition			
Goods transferred at a point in time	**–**	**515,569**	**515,569**
Services transferred over time	**2,964,591**	**–**	**2,964,591**
Total revenue from contracts with customers	**2,964,591**	**515,569**	**3,480,160**

For the year ended 31 December 2022

Segments	Engineering and technical services	Platform and other services	Total
	RMB'000	RMB'000	RMB'000
Type of goods or services			
Engineering and technical services	2,136,630	–	2,136,630
Sale of goods	–	300,748	300,748
Total revenue from contracts with customers	2,136,630	300,748	2,437,378
Timing of revenue recognition			
Goods transferred at a point in time	–	300,748	300,748
Services transferred over time	2,136,630	–	2,136,630
Total revenue from contracts with customers	2,136,630	300,748	2,437,378

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. REVENUE (continued)

Revenue from contracts with customers: (continued)

(a) Disaggregated revenue information: (continued)

The following table shows the amounts of revenue recognised in the year that were included in the contract liabilities at the beginning of the year:

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the year:		
Sale of goods	**25,070**	25,904
Engineering and technical services	**21,978**	88,616
Total	**47,048**	114,520

(b) Performance obligations

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

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 180 days from delivery.

Engineering and technical services

The performance obligation is satisfied over time as services are rendered. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over a certain period as stipulated in the contracts.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

5. REVENUE (continued)

Revenue from contracts with customers: (continued)

(b) Performance obligations (continued)

Engineering and technical services (continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of the year are as follows:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Amounts expected to be recognised as revenue:		
Within one year	744,019	442,298
After one year	318,865	189,556
Total	1,062,884	631,854

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year are related to engineering and technical services, of which the performance obligations are to be satisfied within three years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

6. OTHER INCOME AND GAINS

		For the year ended 31 December	
		2023	2022
	Notes	RMB'000	RMB'000
Other income			
Government grants	(a)	101,747	68,764
Additional VAT reduction	(b)	60,304	42,125
Bank interest income		15,630	11,391
Others		–	494
Total other income		177,681	122,774
Gains			
Gain on disposal of items of property, plant and equipment and early termination of right-of-use assets		3,412	22,824
Fair value gains on derivative instruments – not for hedge accounting		10,279	9,286
Gains on financial assets at fair value through profit or loss		4,128	69
Provision		7,584	–
Amortisation of deferred revenue (note 28)		1,756	586
Others		5,252	2,043
Total gains		32,411	34,808
Total other income and gains		210,092	157,582

Notes:

(a) Government grants

Government grants have been received from local government authorities as subsidies to the Group. In the opinion of management, there were no unfulfilled conditions or contingencies relating to these grants.

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Government special subsidies	101,747	68,764

(b) According to *Announcement of the Ministry of Finance and the State Taxation Administration on the Clarification of Value-Added Tax Reduction and Exemption for Small-Scale Value-Added Tax Taxpayers and Other Policies* (Announcement No. 1 [2023] of the Ministry of Finance and the State Taxation Administration), the additional VAT reduction policy shall continue to be implemented until 31 December 2023.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

7. PROFIT BEFORE TAX

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

		For the year ended 31 December	
		2023	2022
	Notes	RMB'000	RMB'000
Cost of operating lease services		**2,848,976**	2,870,719
Cost of engineering and technical services provided		**2,098,931**	1,496,266
Cost of platform and other services provided		**901,273**	377,655
Depreciation of property, plant and equipment[a]	14	**73,126**	75,899
Depreciation of right-of-use assets[b]	15(a)	**62,822**	77,700
Amortisation of intangible assets	16	**840**	814
Rental expenses	15(c)	**40,028**	25,653
Auditor's remuneration		**5,565**	1,313
Employee benefit expense (including directors' and chief executive's remuneration (note 8))			
Wages and salaries		**479,324**	341,439
Pension scheme contributions		**39,703**	36,590
Other employee benefits		**79,407**	57,687
ECLs of financial and contract assets:			
ECLs on trade receivables	19	**137,779**	65,248
ECLs on financial assets included in prepayments, other receivables and other assets	20	**16,410**	12,833
ECLs/(reversals) on contract assets	21	**14,275**	(224)
ECLs on debt investments at fair value through other comprehensive income	22	**115,007**	32,257

Continued/…

NOTES TO FINANCIAL STATEMENTS

31 December 2023

7. PROFIT BEFORE TAX (continued)

		For the year ended 31 December	
		2023	2022
	Notes	RMB'000	RMB'000
Impairment of inventories		**–**	19,063
Impairment of repossessed assets		**52,872**	–
Research and development expenses:			
Current year expenditure		**328,196**	270,612
Property management services expenses		**19,026**	16,119
Consultancy fees		**38,715**	3,049
Business travelling and transportation expenses		**199,786**	122,952
Information expenses		**34,531**	28,983
Litigation expenses		**2,631**	2,202
Listing expenses		**12,567**	40,349
Exchange losses [c]		**19,190**	139,519
Loss on scrapped and physical items of property, plant and equipment		**1,643**	5,142
Commission expenses		**11,997**	9,936
Entertainment expenses		**17,756**	11,474
Office expenses		**25,494**	27,428
Advertising and promotional expenses		**11,419**	923
Taxes and surcharges		**46,218**	35,215
Others		**24,480**	11,791

(a) Besides the depreciation as mentioned above, the depreciation of property, plant and equipment amounting to RMB2,239,772,000 for the year ended 31 December 2023 is included in cost of sales and research and development expenses (2022: RMB2,119,028,000).

(b) Besides the depreciation as mentioned above, the depreciation of right-of-use assets amounting to RMB58,635,000 for the year ended 31 December 2023 is included in cost of sales (2022: Nil).

(c) The exchange losses mainly include the foreign exchange losses from the redemption liabilities on ordinary shares of RMB18,094,000 and its interest payables of RMB3,277,000 in 2023 (2022: ordinary shares of RMB120,671,000 and its interest payables of RMB9,130,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is recorded in the financial statements of the subsidiaries as follows:

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Fees	**1,145**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**2,195**	2,315
Performance related bonuses	**3,313**	2,058
Pension scheme contributions	**204**	178
Subtotal	**5,712**	4,551
Total fees and other emoluments	**6,857**	4,551

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Mr. Liu Jialin (劉嘉凌)	**229**	–
Mr. Xu Min (徐敏)	**229**	–
Ms. Jin Jinping (金錦萍)	**229**	–
Mr. Sum Siu Kei (岑兆基)	**229**	–
Total	**916**	–

NOTES TO FINANCIAL STATEMENTS

31 December 2023

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Non-executive directors

The fees paid to non-executive directors during the year were as follows:

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Mr. He Ziming (何子明)	**229**	–
Mr. Kong Fanxing (孔繁星)	**–**	–
Mr. Xu Huibin (徐會斌)	**–**	–
Mr. Li Qianjin (李前進)	**–**	–
Ms. Guo Lina (郭麗娜)	**–**	–
Total	**229**	–

(c) Executive directors

For the year ended 31 December 2023

	Salaries, allowances and benefits in kind	**Performance related bonuses**	**Pension scheme contributions**	**Total remuneration**
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Pan Yang (潘陽)	**1,383**	**2,413**	**102**	**3,898**
Mr. Tang Li (唐立)	**812**	**900**	**102**	**1,814**
Total	**2,195**	**3,313**	**204**	**5,712**

NOTES TO FINANCIAL STATEMENTS

31 December 2023

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(c) Executive directors (continued)

For the year ended 31 December 2022

	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Pan Yang (潘陽)	919	1,320	64	2,303
Mr. Tang Li (唐立)	795	738	94	1,627
Mr. Zhang Chunyu (章春雨)*	601	–	20	621
Total	2,315	2,058	178	4,551

* Mr. Zhang Chunyu has resigned as executive director of the Company, and Mr. Pan Yang was appointed as an executive director of the Company on 15 April 2022.

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the years ended 31 December 2023 included two executive directors (2022: two), and details of whose remuneration are set out in note 8 above. Details of the remuneration during the year of the remaining three highest paid employees who are neither a director nor chief executive of the Company are as follows:

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,147**	2,025
Performance related bonuses	**2,504**	2,187
Pension scheme contributions	**306**	282
Total	**4,957**	4,494

NOTES TO FINANCIAL STATEMENTS

31 December 2023

9. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	For the year ended 31 December	
	2023	2022
HK$ Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**3**	3
Total	**3**	3

During the reporting period, no highest paid employees waived or agree to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FINANCE COSTS

An analysis of finance costs is as follows:

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Interest on interest-bearing bank and other borrowings	**820,230**	920,359
Interest on lease liabilities (note 15(b))	**13,933**	4,459
Total	**834,163**	924,818

NOTES TO FINANCIAL STATEMENTS

31 December 2023

11. INCOME TAX

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
		(Restated)
Current – Chinese Mainland		
Charge for the year	**282,638**	296,107
Deferred (note 17)	**(18,522)**	(66,638)
Total	**264,116**	229,469

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, the Company and the Group's subsidiaries incorporated in the Cayman Islands are not subject to any income tax. The Group's subsidiary incorporated in Hong Kong is not liable for income tax as it did not have any taxable profits arising in Hong Kong during the period.

The provision for Chinese Mainland current income tax was based on a statutory rate of 25% (2022: 25%) of the taxable profits for the period as determined in accordance with the PRC Income Tax Law and the respective regulations.

Subsidiaries of the Group operating in Chinese Mainland were subject to the PRC corporate income tax with a tax rate of 25% for the year except for the following subsidiaries:

Company name	Corporate income tax rate
Shanghai Horizon Equipment & Engineering Co., Ltd.	15%
Guangzhou Hongtu Equipment & Engineering Co., Ltd.	15%

Shanghai Horizon Equipment & Engineering Co., Ltd. was accredited as High and New-technology Enterprises (the "HNTE") in 2015, 2018 and 2021, while Guangzhou Hongtu Equipment & Engineering Co., Ltd. was accredited as HNTE in 2020 and 2023, and both of them were entitled to a preferential PRC corporate income tax rate of 15% thereafter. The HNTE certificates of Shanghai Horizon Equipment & Engineering Co., Ltd. and Guangzhou Hongtu Equipment & Engineering Co., Ltd. need to be renewed every three years so as to enable to enjoy the reduced tax rate of 15%. Shanghai Horizon Equipment & Engineering Co., Ltd. was entitled to a tax rate of 15% for the current year and will continue to enjoy the tax rate of 15% till 23 December 2024. Guangzhou Hongtu Equipment & Engineering Co., Ltd. was entitled to a tax rate of 15% for the current year and will continue to enjoy the tax rate of 15% till 28 December 2026.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

11. INCOME TAX (continued)

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

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
		(Restated)
Profit before tax	**1,226,523**	893,804
Tax at the statutory income tax rate	**306,631**	223,451
Effects of different tax rates applicable to different subsidiaries of the Group	**22,667**	68,487
Effects of preferential tax benefits to subsidiaries incorporated in the Chinese Mainland	**(89,192)**	(85,936)
Expenses not deductible for tax	**8,339**	1,699
Adjustment on current income tax in respect of prior periods	**15,301**	(1,964)
Utilisation of previously unrecognised tax losses and temporary differences	**(1,917)**	–
Unrecognised tax losses and temporary differences	**2,287**	23,732
Tax charge at the Group's effective rate	**264,116**	229,469

Pillar Two income taxes

The Group has assessed its potential exposure based on the information available regarding the financial performance of the Group in the current year. As such, it may not be entirely representative of future circumstances. Based on the assessment, the Pillar Two effective tax rates in most of the jurisdictions in which the Group operates are above 15%. There are a limited number of jurisdictions where the Pillar Two effective tax rate is slightly below 15%. The Group does not expect a material exposure to Pillar Two income taxes.

12. DIVIDENDS

No final dividend to the shareholders has been proposed by the board of directors of the Company in respect of the year ended 31 December 2023 (2022: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the consolidated profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,045,288,167 (2022: 2,832,550,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the consolidated profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the effects as if the dilutive potential ordinary shares do not exist at the beginning of the year. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2023	2022
	RMB'000	RMB'000
		(Restated)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**962,407**	664,335

Shares:

	Number of shares	
	2023	2022
Shares		
Weighted average number of ordinary shares outstanding during the year, used in the basic earnings per share calculation	**3,045,288,167**	2,832,550,000

Because the diluted earnings per share amount is increased when taking the interest expense and the put options of the borrowings on ordinary shares with a redemption obligation into account, the redemption obligation had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amounts are calculated using the same earnings amount and the number of weighted average shares as the basic earnings per share.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

14. PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2023

	Buildings	Leasehold improvements	Equipment, materials and moulds for leasing and services	Equipment, materials and moulds for own use	Office and other equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023:							
Cost	719,692	80,979	24,156,638	78,282	63,261	63,065	25,161,917
Accumulated depreciation and impairment	(141,055)	(52,555)	(5,756,210)	(34,482)	(36,915)	(38,310)	(6,059,527)
Net carrying amount	578,637	28,424	18,400,428	43,800	26,346	24,755	19,102,390
At 1 January 2023, net of accumulated depreciation and impairment	578,637	28,424	18,400,428	43,800	26,346	24,755	19,102,390
Additions	737	6,800	2,009,116	12,113	2,418	565	2,031,749
Disposals	–	–	(593,657)	(5,215)	(684)	(578)	(600,134)
Depreciation provided during the year	(34,982)	(19,337)	(2,222,579)	(12,001)	(11,078)	(12,921)	(2,312,898)
At 31 December 2023, net of accumulated depreciation and impairment	544,392	15,887	17,593,308	38,697	17,002	11,821	18,221,107
At 31 December 2023:							
Cost	720,429	87,779	24,657,552	83,632	61,112	61,524	25,672,028
Accumulated depreciation and impairment	(176,037)	(71,892)	(7,064,244)	(44,935)	(44,110)	(49,703)	(7,450,921)
Net carrying amount	544,392	15,887	17,593,308	38,697	17,002	11,821	18,221,107

NOTES TO FINANCIAL STATEMENTS

31 December 2023

14. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2022

	Buildings	Leasehold improvements	Equipment, materials and moulds for leasing and services	Equipment, materials and moulds for own use	Office and other equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022:								
Cost	719,284	60,000	21,374,014	64,680	57,874	72,705	676	22,349,233
Accumulated depreciation and impairment	(105,594)	(33,699)	(3,851,635)	(25,252)	(26,111)	(28,879)	–	(4,071,170)
Net carrying amount	613,690	26,301	17,522,379	39,428	31,763	43,826	676	18,278,063
At 1 January 2022, net of accumulated depreciation and impairment	613,690	26,301	17,522,379	39,428	31,763	43,826	676	18,278,063
Additions	27	20,979	3,164,519	14,922	7,812	10,962	1,170	3,220,391
Disposals	–	–	(184,750)	(479)	(222)	(14,221)	(1,465)	(201,137)
Depreciation provided during the year	(35,461)	(18,856)	(2,101,720)	(10,071)	(13,007)	(15,812)	–	(2,194,927)
Transfer from construction in progress	381	–	–	–	–	–	(381)	–
At 31 December 2022, net of accumulated depreciation and impairment	578,637	28,424	18,400,428	43,800	26,346	24,755	–	19,102,390
At 31 December 2022:								
Cost	719,692	80,979	24,156,638	78,282	63,261	63,065	–	25,161,917
Accumulated depreciation and impairment	(141,055)	(52,555)	(5,756,210)	(34,482)	(36,915)	(38,310)	–	(6,059,527)
Net carrying amount	578,637	28,424	18,400,428	43,800	26,346	24,755	–	19,102,390

NOTES TO FINANCIAL STATEMENTS

31 December 2023

14. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2023, certain of the Group's property, plant and equipment with a net carrying amount of RMB6,476,770,000 were pledged to secure other borrowings granted to the Group (2022: RMB6,837,583,000).

Movement in provision for impairment of property, plant and equipment in the year is as follows:

	Equipment, materials and moulds for leasing and services
	RMB'000
At 1 January 2022	155,609
Disposals	(2,115)
At 31 December 2022 and 1 January 2023	**153,494**
Disposals	**(51,689)**
At 31 December 2023	**101,805**

Measurement basis and major assumptions for determining the recoverable amount of the above asset groups are as follows:

The recoverable amount is determined based on the higher of the net amount of fair value of the cash-generating unit ("CGU") less costs to sell and the present value of the estimated future cash flows of the CGUs ("VIU").

The VIUs were calculated by discounting the estimated future cash flows based on the forecast rentals earned from the CGUs with a forecast period ranging from 4 to 5 years, which is determined based on management's best estimate of the average remaining useful life and economic conditions of the assets of the respective CGUs. The cash flows over the forecast period had been determined based on historical rental arrangements such as rental income, occupancy rate. The estimated future cash flows were discounted to their present values using pre-tax rates of 11% to 14% as at 31 December 2023, which reflected the market assessments of the time value of money and the risks specific to the CGUs (2022: 11% to 16%).

The calculation of the fair value less costs to sell was based on observable market prices for the equipment with similar conditions and incremental costs for disposing of the asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

15. LEASES

The Group as a lessee

The Group has lease contracts for various items of leasehold land, offices, and equipment used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of offices generally have lease terms between 1 and 6 years, while equipment generally has a five-year lease term or 12 months or less and/or is individually of low value.

(a) Right-of-use assets

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

	Leasehold land	Offices	Equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2022	190,808	130,406	–	321,214
Additions	–	119,177	–	119,177
Depreciation charge	(4,705)	(72,995)	–	(77,700)
Disposal	–	(27,469)	–	(27,469)
As at 31 December 2022 and 1 January 2023	**186,103**	**149,119**	**–**	**335,222**
Additions	**–**	**101,970**	**725,844**	**827,814**
Depreciation charge	**(4,705)**	**(58,117)**	**(58,635)**	**(121,457)**
Disposal	**–**	**(63,153)**	**–**	**(63,153)**
As at 31 December 2023	**181,398**	**129,819**	**667,209**	**978,426**

As at 31 December 2023 and 2022, the Group has obtained all the land ownership certificates.

At the end of the year, no leasehold land of the Group was pledged as security for the Group's bank borrowings.

Measurement basis and major assumptions for determining the recoverable amounts of the above equipment categorised in right-of-use assets of the Group are disclosed in note 14 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

15. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities:

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

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Carrying amount at beginning of year	131,259	126,288
New leases	827,814	119,177
Accretion of interest recognised during the year (note 10)	13,933	4,459
Payments	(213,161)	(94,133)
Disposal	(66,241)	(24,532)
Carrying amount at end of year	693,604	131,259
Analysed into:		
Current portion	192,013	59,927
Non-current portion	501,591	71,332

The maturity analysis of lease liabilities is disclosed in note 38 to the financial statements.

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

	2023	2022
	RMB'000	RMB'000
Interest on lease liabilities (note 10)	13,933	4,459
Depreciation charge on right-of-use assets	121,457	77,700
Rental expense (note 7)	40,028	25,653
Cost of re-rent fees	423,523	156,227
Total amount recognised in profit or loss	598,941	264,039

The total cash outflow for leases is disclosed in note 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

15. LEASES (continued)

The Group as a lessor

The Group mainly leases its equipment, materials and moulds in Chinese Mainland under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group amounted to RMB6,130,421,000 for the year ended 31 December 2023, details of which are included in note 5 to the financial statements (2022: RMB5,440,268,000).

At the end of the reporting period, the undiscounted lease payments receivable by the Group in future period under non-cancellable operating leases with its tenants are as follows:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Within 1 year	4,367,659	4,361,282
After 1 year but within 2 years	536,734	535,532
After 2 years but within 3 years	17,458	17,292
Total	4,921,851	4,914,106

16. OTHER INTANGIBLE ASSETS

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Software		
At beginning of year:		
Cost	8,209	8,209
Accumulated amortisation	(4,412)	(3,598)
Net carrying amount	3,797	4,611
Carrying amount at beginning of year:	3,797	4,611
Additions	788	–
Amortisation provided during the year (note 7)	(840)	(814)
Carrying amount at end of year	3,745	3,797
At end of year:		
Cost	8,997	8,209
Accumulated amortisation	(5,252)	(4,412)
Net carrying amount	3,745	3,797

NOTES TO FINANCIAL STATEMENTS

31 December 2023

17. DEFERRED TAX

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

Deferred tax assets

As at 31 December 2023

	Government special subsidy	Provision for impairment losses	Salaries and benefits payable	Deductible tax loss	Accrued interest expenses	Lease liabilities	Deferred tax asset arising from an interest rate swap	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2022	1,505	221,757	35,888	–	70,469	–	–	3,462	333,081
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	–	–	–	–	–	20,240	–	–	20,240
1 January 2023 (restated)	1,505	221,757	35,888	–	70,469	20,240	–	3,462	353,321
Deferred tax credited/(charged) to profit or loss during the year (note 11)	–	23,856	(3,505)	50,830	(33,951)	89,588	–	(2,942)	123,876
Deferred tax credited to other comprehensive income during the year	–	–	–	–	–	–	387	–	387
Gross deferred tax assets at 31 December 2023	1,505	245,613	32,383	50,830	36,518	109,828	387	520	477,584

As at 31 December 2022

	Government special subsidy	Provision for impairment losses	Salaries and benefits payable	Accrued interest expenses	Lease liabilities	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2021	1,505	205,378	54,019	–	–	2,957	263,859
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	–	–	–	–	18,321	–	18,321
1 January 2022 (restated)	1,505	205,378	54,019	–	18,321	2,957	282,180
Deferred tax credited/(charged) to profit or loss during the year (restated) (note 11)	–	16,379	(18,131)	70,469	1,919	505	71,141
Gross deferred tax assets at 31 December 2022 (restated)	1,505	221,757	35,888	70,469	20,240	3,462	353,321

NOTES TO FINANCIAL STATEMENTS

31 December 2023

17. DEFERRED TAX (continued)

The movements in deferred tax assets and liabilities during the year are as follows: (continued)

Deferred tax liabilities

As at 31 December 2023

	Right-of-use assets	Deferred tax liability arising from a cross-currency interest rate swap	Deferred tax liability arising from additional tax deduction for fixed assets of high-tech enterprises	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2022	–	357	–	357
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	23,283	–	–	23,283
At 1 January 2023 (restated)	23,283	357	–	23,640
Deferred tax charged to profit or loss during the year (note 11)	103,075	(357)	2,636	105,354
Gross deferred tax liabilities at 31 December 2023	126,358	–	2,636	128,994

As at 31 December 2022

	Right-of-use assets	Deferred tax liability arising from a cross-currency interest rate swap	Total
	RMB'000	RMB'000	RMB'000
At 31 December 2021	–	–	–
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	19,137	–	19,137
At 1 January 2022 (restated)	19,137	–	19,137
Deferred tax charged to profit or loss during the year (restated) (note 11)	4,146	357	4,503
Gross deferred tax liabilities at 31 December 2022 (restated)	23,283	357	23,640

NOTES TO FINANCIAL STATEMENTS

31 December 2023

17. DEFERRED TAX (continued)

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

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	348,590	329,681
Net deferred tax liabilities recognised in the consolidated statement of financial position	–	–

The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008. The applicable rate is 10% for the Group.

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

At 31 December 2023, no deferred tax liability has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Company and the Group's subsidiaries established in Chinese Mainland. In the opinion of the directors of the Company, the Group's fund will be retained in Chinese Mainland for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. As at 31 December 2023, the aggregate amounts of temporary differences associated with investments in subsidiaries in Chinese Mainland for which deferred tax liabilities have not been recognised were approximately RMB3,096,125,000 (2022: RMB2,027,025,000).

Tax losses arising in Chinese Mainland will expire in five years for offsetting against future taxable profits. As at 31 December 2023, the Group had tax losses of RMB108,485,000 that will expire in one to five years (2022: RMB144,540,000). Tax losses arising in locations other than Chinese Mainland will be available indefinitely for offsetting against future taxable profits. As at 31 December 2023, the Group had tax losses of RMB9,547,000 with no expire date (2022: RMB1,881,000). Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

18. INVENTORIES

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Raw materials	**127,101**	84,697
Work in progress	**15,160**	18,799
Finished goods	**27,950**	82,721
Total	**170,211**	186,217

For the year ended 31 December 2023, no impairment loss on inventories (2022: RMB19,063,000) was recognised as an expense.

At the end of each of the year, no inventories of the Group were pledged as security for the Group's bank borrowings.

19. TRADE RECEIVABLES

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Trade receivables	**6,028,731**	5,387,345
ECLs	**(998,911)**	(900,355)
Net carrying amount	**5,029,820**	4,486,990

Trade receivables mainly represent rentals and services receivables from tenants and engineering services. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified individual customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

19. TRADE RECEIVABLES (continued)

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

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Within 6 months	3,053,377	3,362,705
6 months to 1 year	916,893	516,793
1 to 2 years	872,495	454,728
2 to 3 years	143,376	79,021
Over 3 years	43,679	73,743
Total	5,029,820	4,486,990

The movements in the credit loss for trade receivables are as follows:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
At beginning of year	900,355	835,107
ECLs (note 7)	137,779	65,248
Write-off	(39,223)	–
At end of year	998,911	900,355

A credit loss analysis was performed at the end of the reporting period using the simplified approach. Under the simplified approach, the Group did not track changes in credit risk, but instead recognised a credit loss based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

19. TRADE RECEIVABLES (continued)

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

As at 31 December 2023

	Ageing					
	Less than 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Gross carrying amount (RMB'000)	3,472,375	1,055,070	1,205,550	218,520	77,216	6,028,731
ECLs (RMB'000)	418,998	138,177	333,055	75,144	33,537	998,911
ECL rate	12.07%	13.10%	27.63%	34.39%	43.43%	16.57%

As at 31 December 2022

	Ageing					
	Less than 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Gross carrying amount (RMB'000)	3,836,536	617,821	664,177	126,479	142,332	5,387,345
ECLs (RMB'000)	473,831	101,028	209,449	47,458	68,589	900,355
ECL rate	12.35%	16.35%	31.54%	37.52%	48.19%	16.71%

At the end of the reporting period, no trade receivables of the Group were pledged as security for the Group's bank borrowings.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Current		
Prepayments	490,991	304,500
Deposits*	493,040	337,415
Due from related parties (note 35(c))	2,009	159
Other receivables	95,654	90,193
Tax recoverable	1,085,001	1,400,331
	2,166,695	2,132,598
ECLs	(45,096)	(28,779)
Subtotal	2,121,599	2,103,819
Non-current		
Deposits	258,989	144,000
Repossessed assets**	300,320	31,079
Others	4,089	–
	563,398	175,079
ECLs	(192)	(99)
Subtotal	563,206	174,980
Total	2,684,805	2,278,799

* As at 31 December 2023, current deposits of RMB47,173,000 were pledged for other borrowings granted to the Group (2022: RMB660,000).

** As at 31 December 2023, the carrying amount of repossessed assets was RMB300,320,000 (2022: RMB31,079,000), mainly comprised properties. Related allowance for impairment was RMB52,872,000 (2022: Nil). The carrying amount of the repossessed assets amounted to RMB6,720,000 (2022: Nil) and RMB52,277,000 (2022: Nil) were disposed and settled by trade and bills payables for the year ended 31 December 2023, respectively. The Group plans to dispose of the repossessed assets held at 31 December 2023 by auction, bidding or transfer. The certificates of some properties with a carrying amount of RMB274,491,000 (31 December 2022: Nil) is still being processed, the directors of the Company believe there is no significant impact on the Group's financial statements.

A credit loss analysis was performed at the end of the reporting period by considering the probability of default of comparable companies with published credit ratings. At the end of the reporting period, the ECLs of the financial assets included in prepayments, other receivables and other assets were measured based on the 12-month ECLs if they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, they were measured based on the lifetime ECLs.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

Movements in the credit loss for amounts due from related parties, other receivables, and rental and project deposits are as follows:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
At beginning of year	28,878	16,045
ECLs (note 7)	16,410	12,833
At end of year	45,288	28,878

21. CONTRACT ASSETS

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Contract assets arising from:		
Construction and related services	428,947	335,104
ECLs	(45,084)	(30,809)
Net carrying amount	383,863	304,295

Contract assets are initially recognised for revenue earned from construction and related services as the receipt of consideration depends on the milestone achieved and accepted by the customer. Included in contract assets for construction and related services are retention receivables. Upon completion of installation or construction and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets during the year was the result of the increase in construction and related services provided at the end of the year.

The Group's credit policy with customers is disclosed in note 19 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

21. CONTRACT ASSETS (continued)

The expected timing of recovery or settlement for contract assets as at the end of the reporting period are as follows:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Within 1 year	**353,459**	263,583
1 to 2 years	**30,404**	40,712
Total	**383,863**	304,295

The movements in the credit losses for contract assets are as follows:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
At beginning of year	**30,809**	31,033
ECLs (note 7)	**14,275**	(224)
At end of year	**45,084**	30,809

A credit loss analysis was performed at the end of the reporting period using the simplified approach. Under the simplified approach, the Group did not track changes in credit risk, but instead recognised a credit loss based on lifetime ECLs at the end of the reporting period. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The provision rates for the measurement of the ECLs of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases.

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

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Gross carrying amount	**428,947**	335,104
ECLs	**45,084**	30,809
ECLs rate	**10.51%**	9.19%

NOTES TO FINANCIAL STATEMENTS

31 December 2023

22. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Measured at fair values:		
Notes receivable	**1,419,901**	1,104,511
ECLs	**(183,163)**	(68,156)
Total	**1,236,738**	1,036,355

The above debt investments were classified as financial assets at fair value through other comprehensive income as the business model for the notes receivable was for both collecting contractual cash flows and discounting.

At 31 December 2023, no note receivable was pledged for other borrowings (2022: Nil).

A credit loss analysis was performed at the end of the reporting period by considering the probability of default of comparable companies with published credit ratings. At the end of the year, the ECLs of the notes receivable were measured based on the 12-month ECLs if they were not past due and if there was no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, they were measured based on the lifetime ECLs.

Movements in the credit loss for debt investments at fair value through other comprehensive income are as follows:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
At beginning of year	**68,156**	35,899
ECLs (note 7)	**115,007**	32,257
At end of year	**183,163**	68,156

NOTES TO FINANCIAL STATEMENTS

31 December 2023

22. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

Transferred financial assets that are not derecognised in their entirety:

During the year, the Group endorsed certain bills receivable accepted by banks in Chinese Mainland to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such endorsed bills, and accordingly, it continued to recognise the full carrying amounts of the endorsed bills and the associated trade payables settled. Subsequent to the Endorsement, the Group did not retain any rights on the use of the endorsed bills, including the sale, transfer or pledge of the endorsed bills to any other third parties. The incurred amount of the trade payables settled by the endorsed bills as at 31 December 2023 was RMB79,760,000 (2022: RMB119,338,000).

During the year, the Group discounted certain bills receivable to banks in exchange for cash (the "Discounted Bills"). The incurred amount of the bills receivable as at 31 December 2023 was Nil (2022: RMB34,979,000). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills and the associated interest-bearing bank borrowings.

Transferred financial assets that are derecognised in their entirety:

During the year, the Group endorsed/discounted certain bills receivable accepted by banks in Chinese Mainland to certain of its suppliers or in exchange for cash (the "Derecognised Bills"). The incurred amount of the bills receivable as at 31 December 2023 was RMB32,869,000 (2022: RMB137,006,000). In the opinion of the directors, the Group had transferred substantially all risk and rewards relating to the Derecognised Bills. Accordingly, it had derecognised the full carrying amount of the Derecognised Bills. The maximum exposure to loss from the Group's continuing involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the Derecognised Bills are not significant.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

23. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCES

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Cash and bank balances	**2,166,812**	2,222,269
Less: Restricted bank balances	**(14)**	(62,944)
Cash and cash equivalents	**2,166,798**	2,159,325

As at 31 December 2023, the cash and bank balances of the Group denominated in RMB amounted to RMB2,124,028,000 (2022: RMB2,169,289,000). The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2023, no cash at banks was pledged for bank acceptances, letters of credit and others (2022: RMB62,944,000).

As at 31 December 2023, the combined Paypal and Alipay balance was RMB14,000 (2022: Nil), which will be released only after the customer confirms receipt of the goods.

As at 31 December 2023, no cash and cash equivalents was deposited with Sinochem Finance Co., Ltd., a subsidiary of a group which has significant influence over the Company (2022: RMB2,259,000) (note 35(c)).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

24. TRADE AND BILLS PAYABLES

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

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Within 1 year	**1,464,337**	1,002,327
1 to 2 years	**40,037**	84,800
2 to 3 years	**38,557**	9,751
Over 3 years	**9,556**	12,916
Total	**1,552,487**	1,109,794

The trade and bills payables are non-interest-bearing.

25. OTHER PAYABLES AND ACCRUALS

		31 December 2023	31 December 2022
	Notes	RMB'000	RMB'000
Current			
Lease deposits		**26,189**	23,454
Salary and welfare payables		**194,865**	214,118
Advanced from customers		**170,290**	251,934
Contract liabilities	(a)	**45,075**	47,047
Other taxes payable		**129,196**	85,005
Interest payable		**43,291**	65,775
Other payables	(b)	**59,910**	49,452
Due to related parties (note 35(c))		**23**	23
Subtotal		**668,839**	736,808
Non-current			
Lease deposits		**11,768**	71,259
Provisions		**2,081**	13,848
Interest payable		**–**	181,159
Subtotal		**13,849**	266,266
Total		**682,688**	1,003,074

NOTES TO FINANCIAL STATEMENTS

31 December 2023

25. OTHER PAYABLES AND ACCRUALS (continued)

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Short-term advances received from customers		
Sale of goods	19,695	25,070
Engineering and technical services	25,380	21,977
Total contract liabilities	45,075	47,047

Contract liabilities include short-term advances received to deliver goods and engineering and technical services. The change in contract liabilities in the year was mainly due to the change in short-term advances received from customers in relation to the delivery of goods and provision of engineering and technical services at the end of the year.

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

26. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2023			31 December 2022		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank borrowings – unsecured (c)	–	–	–	3.50-4.35	2023	435,350
Current portion of long-term bank borrowings – unsecured (c)	1.30-4.98	2024	4,539,149	1.30-4.98	2023	3,051,294
Other borrowings – unsecured	3.40-3.75	2024	318,526	0.49-2.57	2023	37,571
Other borrowings – secured (a)	3.65-5.68	2024	1,836,917	2.97-5.75	2023	2,619,203
Subtotal			6,694,592			6,143,418
Non-current						
Bank borrowings – unsecured (c)	3.05-4.90	2025-2030	7,404,270	1.30-4.98	2024-2028	9,526,017
Other borrowings on ordinary shares with a redemption obligation (d)	–	–	–	8.00	2024	1,427,118
Other borrowings – secured (a)	3.08-5.37	2025-2030	3,240,370	2.97-5.68	2024-2029	4,115,561
Subtotal			10,644,640			15,068,696
Total			17,339,232			21,212,114

NOTES TO FINANCIAL STATEMENTS

31 December 2023

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Analysed into:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Bank borrowings repayable:		
Within one year	**4,539,148**	3,486,644
In the second year	**3,833,657**	4,614,216
In the third to fifth years, inclusive	**3,289,140**	4,907,628
Beyond five years	**281,474**	4,173
Subtotal	**11,943,419**	13,012,661
Other borrowings repayable:		
Within one year	**2,155,443**	2,656,774
In the second year	**1,077,170**	3,137,285
In the third to fifth years, inclusive	**1,972,226**	2,222,440
Beyond five years	**190,974**	182,954
Subtotal	**5,395,813**	8,199,453
Total	**17,339,232**	21,212,114

Notes:

(a) As at 31 December 2023, the Group's other borrowings include financial liabilities recognised in accordance with certain of leaseback transaction arrangements of the Group, which amounted to RMB5,030,113,000, and were secured by the Group's property, plant and equipment (2022: RMB6,734,104,000). In addition, none of the Group's other borrowings were secured by notes receivable at 31 December 2023 (2022: None). The Group's other borrowings amounting to RMB47,173,000 were secured by deposits at 31 December 2023 (2022: RMB660,000).

(b) As at 31 December 2023, none of the Group's bank borrowings were guaranteed by the companies controlled by the Controlling Shareholder (2022: Nil).

(c) As at 31 December 2023, bank borrowings of RMB12,113,000 arose from supplier financing arrangements (2022: RMB84,649,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

26. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(d) Other borrowings on ordinary shares with a redemption obligation:

Redemption right:

Pursuant to the Share Purchase Agreement signed by and among the pre-IPO investors of the Group on 16 April 2021, shares shall be redeemed by the Company upon the occurrence of certain contingent events which cannot be controlled by the Company including a public offering of the Company on the Stock Exchange or another recognised international securities exchange not being completed within 36 months. The price of investors' shares to be redeemed shall be an amount that would give investor at a fixed rate of 8% per annum for its investment in the Company plus all accrued but unpaid dividends.

Presentation and classification:

The redemption obligation gives rise to financial liabilities, which are measured at net present value of the redemption amount. These investors subscribed for an aggregate of 6,651 shares of the Company at a total consideration of USD204,910,000, initially equivalent to RMB1,326,185,000, with certain conditional terms. On 25 May 2023, the ordinary shares of the Company were listed on the Stock Exchange and the redemption obligation was terminated and the carrying amount of other borrowings of RMB1,676,276,000 was classified to capital reserve (note 30).

(e) All bank and other borrowings are denominated in RMB at the end of the reporting period, except for other borrowings on ordinary shares with a redemption obligation of RMB1,427,118,000 equivalent as at 31 December 2022 and bank borrowings of RMB166,391,000 equivalent as at 31 December 2023, which were denominated in USD (31 December 2022: RMB185,432,000).

27. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2023		31 December 2022	
	Asset	Liability	Asset	Liability
	RMB'000	RMB'000	RMB'000	RMB'000
Cross-currency interest rate swap	12,658	–	2,379	–
Interest rate swap	–	(2,581)	–	(2,257)
Total	12,658	(2,581)	2,379	(2,257)
Portion classified as non-current:				
Cross-currency interest rate swap	–	–	2,379	–
Interest rate swap	–	(2,581)	–	(2,257)
Current portion:				
Cross-currency interest rate swap	12,658	–	–	–

NOTES TO FINANCIAL STATEMENTS

31 December 2023

27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

As at 31 December 2023, the Group held one cross-currency interest rate swap with Ping An Bank (2022: one cross-currency interest rate swap). The contract was not designated as hedge relationship, but was, nevertheless, intended to reduce the level of foreign currency exchange risks for the borrowings denominated in USD. Changes in the fair value of the non-hedging interest rate swap amounting to RMB10,279,000 were charged to profit or loss during the year ended 31 December 2023 (2022: RMB9,286,000).

As at 31 December 2023, the Group held one interest rate swap with China Construction Bank (2022: one interest rate swap). The contract was designated in hedge relationships, intended to reduce the risk of cash flow changes due to interest rate risk related to the borrowings denominated in RMB. Loss in the fair value of the hedging interest rate swap amounting to RMB324,000 was charged to other comprehensive income during the year ended 31 December 2023 (2022: RMB2,257,000).

Cash flow hedge under HKFRS 9

There is an economic relationship between the hedged items and the hedging instruments as the terms of the cross-currency interest rate swap contract and the interest rate swap match the terms of the borrowing contracts (i.e., notional amount, expected payment date and interest rate). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risks of the cross-currency interest rate swap contract and the interest rate swap are identical to those of the hedged risk components. To measure the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

Hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The counterparties' credit risks differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amounts of cash flows of hedged items and hedging instruments

NOTES TO FINANCIAL STATEMENTS

31 December 2023

27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

The Group holds the following interest rate swap:

As at 31 December 2023

	Maturity					
	Less than 3 months	**3 to 6 months**	**6 to 9 months**	**9 to 12 months**	**1 to 3 years**	**Total**
Interest rate swap – Notional amount (RMB'000)	**–**	**–**	**–**	**–**	**267,270**	**267,270**
Hedge rate	**1**	**1**	**1**	**1**	**1**	

As at 31 December 2022

	Maturity					
	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	1 to 3 years	Total
Interest rate swap – Notional amount (RMB'000)	–	–	–	–	267,522	267,522
Hedge rate	1	1	1	1	1	

The impacts of the hedging instrument on the statement of financial position are as follows:

As at 31 December 2023

	Notional amount	**Carrying amount**	**Line item in the statement of financial position**	**Change in fair value used for measuring hedge ineffectiveness for the year**
	RMB'000	RMB'000		RMB'000
Interest rate swap – Notional amount	**267,270**	**(2,581)**	**Derivative financial instruments (liabilities)**	**(324)**

NOTES TO FINANCIAL STATEMENTS

31 December 2023

27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

The impacts of the hedging instrument on the statement of financial position are as follows: (continued)

As at 31 December 2022

	Notional amount	Carrying amount	Line item in the statement of financial position	Change in fair value used for measuring hedge ineffectiveness for the year
	RMB'000	RMB'000		RMB'000
Interest rate swap – Notional amount	267,522	(2,257)	Derivative financial instruments (liabilities)	(2,257)

The impacts of the hedged item on the statement of financial position are as follows:

As at 31 December 2023

	Change in fair value used for measuring hedge ineffectiveness for the year	**Cash flow hedge reserve**
	RMB'000	RMB'000
Interest rate swap	**(324)**	**(2,581)**

As at 31 December 2022

	Change in fair value used for measuring hedge ineffectiveness for the year	Cash flow hedge reserve
	RMB'000	RMB'000
Interest rate swap	(2,257)	(2,257)

NOTES TO FINANCIAL STATEMENTS

31 December 2023

27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Cash flow hedge under HKFRS 9 (continued)

The effects of the cash flow hedge on the statement of profit or loss and the statement of comprehensive income are as follows:

As at 31 December 2023

	Total hedging loss recognised in other comprehensive income			Hedge ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss
	Gross amount	Tax effect	Total		
Interest rate swap – Notional amount (RMB'000)	(324)	387	63	–	N/A
Hedge rate	1	1	1		

As at 31 December 2022

	Total hedging loss recognised in other comprehensive income			Hedge ineffectiveness recognised in profit or loss	Line item in the statement of profit or loss
	Gross amount	Tax effect	Total		
Interest rate swap – Notional amount (RMB'000)	(2,257)	–	(2,257)	–	N/A
Hedge rate	1	1	1		

NOTES TO FINANCIAL STATEMENTS

31 December 2023

28. DEFERRED REVENUE

	31 December 2023	31 December 2022
	RMB'000	RMB'000
At beginning of year	16,684	17,270
Amortised to profit or loss (note 6)	(1,756)	(586)
At end of year	14,928	16,684

29. SHARE CAPITAL

Shares	31 December 2023	31 December 2022
Authorised		
5,000,000,000 shares of a par value of USD0.00002 each	100,000	100,000

Shares	31 December 2023	31 December 2022
Issue and paid:		
2,832,550,000 shares of a par value of USD0.00002 each	56,651	56,651
364,694,000 shares of a par value of USD0.00002 each*	7,294	–
Total	63,945	56,651
Equivalent to RMB	421,000	370,000

* On 25 May 2023, the ordinary shares of the Company were listed on the Stock Exchange, and in connection with the Company's listing, 364,694,000 ordinary shares of the Company were issued through global offering to public and international investors at the offer price of HKD4.52 per share for the aggregate cash proceeds before expense of HKD1,648,417,000 (equivalent to RMB1,488,329,000).

NOTES TO FINANCIAL STATEMENTS

31 December 2023

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity of the financial statements.

(a) Share premium

The share premium represents the difference between the par value of the shares issued and the consideration received.

(b) Merger reserve

The merger reserve of the Group represents the difference between the changes of the contribution from the then holding company before the completion of the Reorganisation and the consideration paid by the Group for the business combination under common control.

(c) Capital reserve

1) Ordinary shares with a redemption obligation

Pursuant to the Share Purchase Agreement signed by and among the pre-IPO investors of the Group on 16 April 2021, an aggregate of 6,651 ordinary shares with a redemption obligation were issued and allocated to the Pre-IPO investors at a consideration of USD204,910,000 (equivalent to RMB1,326,185,000) (note 26(d)). On 25 May 2023, the ordinary shares of the Company were listed on the Stock Exchange and the redemption obligation with a carrying amount of RMB1,676,276,000 (including principal of RMB1,445,212,000 and interest of RMB231,064,000) was classified to capital reserve.

2) Other capital reserve

Other capital reserve represents any difference between the carrying amount of net assets attributable to the non-controlling shareholders and the fair value of the consideration paid.

(d) Special reserve

Special reserve mainly represents funds set aside for the purpose of certain safety production activities. Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC and other relevant regulatory bodies, the subsidiaries, Shanghai Horizon Equipment & Engineering Co., Ltd. and Shanghai Hongjin Equipment & Engineering Co., Ltd. set aside funds mainly for construction service activities at prescribed rates. These funds can be used for maintenance and/or improvements of safety of these activities, and are not available for distribution to shareholders. The amounts are generally expenses in nature and charged to profit or loss as incurred, and at the same time, the corresponding amounts of safety reserve fund were utilised and transferred back to retained profits until such special reserve was fully utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

For the year ended 31 December 2023, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB827,814,000, in respect of lease arrangements for offices and equipment (2022: RMB119,177,000).

For the year ended 31 December 2023, the Group offset its loan of RMB50,000,000 by deposits. (2022: Nil).

For the year ended 31 December 2023, the Group had entered certain supplier financing arrangements with the banks. Under such arrangements, the banks will pay upon delivery of product by the supplier and the Group will subsequently settle the liability directly with banks. No cash flow was involved, and no cash flow is presented in the consolidated financial statement of cash flows. The derecognition of the payables to the bank and other borrowings amounted to RMB12,113,000 (2022: RMB84,649,000).

For the year ended 31 December 2023, the account receivables for several customers had been settled by certain properties of RMB340,668,000 (2022: RMB31,079,000).

For the year ended 31 December 2023, the ordinary shares of the Company were listed on the Stock Exchange, and the redemption obligation with a carrying amount of RMB1,676,276,000 (including principal of RMB1,445,212,000 and interest of RMB231,064,000) was classified to capital reserve.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities

For the year ended 31 December 2023

	Interest payable	**Bank and other borrowings**	**Lease liabilities**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2023	**246,934**	**21,212,114**	**131,259**	**21,590,307**
Changes in principal from financing cash flows	**–**	**(2,407,877)**	**(213,161)**	**(2,621,038)**
Supplier financing arrangements	**–**	**12,113**	**–**	**12,113**
Repayment of loan with deposits	**–**	**(50,000)**	**–**	**(50,000)**
Derecognition of redemption obligation	**(231,064)**	**(1,445,212)**	**–**	**(1,676,276)**
New leases	**–**	**–**	**827,814**	**827,814**
Disposal	**–**	**–**	**(66,241)**	**(66,241)**
Foreign exchange movement	**3,277**	**18,094**	**–**	**21,371**
Interest accrued	**820,230**	**–**	**13,933**	**834,163**
Interest paid	**(796,086)**	**–**	**–**	**(796,086)**
At 31 December 2023	**43,291**	**17,339,232**	**693,604**	**18,076,127**

For the year ended 31 December 2022

	Interest payable	Bank and other borrowings	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	127,523	17,697,766	126,288	17,951,577
Changes in principal from financing cash flows	–	3,292,920	(94,133)	3,198,787
Supplier financing arrangements	–	84,649	–	84,649
New leases	–	–	119,177	119,177
Disposal	–	–	(24,532)	(24,532)
Foreign exchange movement	9,130	136,779	–	145,909
Interest accrued	920,359	–	4,459	924,818
Interest paid	(810,078)	–	–	(810,078)
At 31 December 2022	246,934	21,212,114	131,259	21,590,307

NOTES TO FINANCIAL STATEMENTS

31 December 2023

31. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(c) Total cash outflow for leases

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

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Within operating activities	**(463,551)**	(181,880)
Within financing activities	**(213,161)**	(94,133)
Total	**(676,712)**	(276,013)

32. CONTINGENT LIABILITIES

As at 31 December 2023 and 2022, the Group did not have any material contingent liability, guarantee or any other material litigation or claim outstanding or threatened against the Group that could have a material adverse effect on its business, financial condition or results of operations.

33. PLEDGE OF ASSETS

Details of the Group's assets pledged under bank and other borrowings and restricted bank balances are contained in notes 14, 15, 18, 19, 20, 22, 23 and 26 of the financial statements.

34. COMMITMENTS

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

	31 December 2023	31 December 2022
	RMB'000	RMB'000
Contracted, but not provided for:		
Purchase of plant and machinery	**108,067**	69,234

NOTES TO FINANCIAL STATEMENTS

31 December 2023

35. RELATED PARTY TRANSACTIONS

(a) Name and relationship

Name of related party	Relationship with the Group
Far East Horizon Limited (遠東宏信有限公司)	Controlling Shareholder
International Far Eastern Leasing Co., Ltd. (遠東國際融資租賃有限公司)	Company controlled by the Controlling Shareholder
Far East Horizon Leasing (Guangdong) Co., Ltd. (遠東宏信融資租賃(廣東)有限公司)	Company controlled by the Controlling Shareholder
Shanghai Baiyue Property Service Co., Ltd. (上海柏悦物業服務有限公司)*	Company controlled by the Controlling Shareholder
Shaoxing Shangyu Boteng Metal Products Co., Ltd. (紹興市上虞博騰金屬製品有限公司)	Company controlled by a close family member of key management personnel
Sinochem Finance Co., Ltd. (中化集團財務有限責任公司)	Subsidiary of a group which has significant influence over the Controlling Shareholder of the Company
Shanghai Jinmao Construction & Decoration Co., Ltd. (上海金茂建築裝飾有限公司)	Subsidiary of a group which has significant influence over the Controlling Shareholder of the Company
Sinochem Fuling Chongqing Chemical Industry Co., Ltd. (中化重慶涪陵化工有限公司)	Subsidiary of a group which has significant influence over the Controlling Shareholder of the Company
Bluestar Engineering Co., Ltd. (藍星工程有限公司)	Subsidiary of a group which has significant influence over the Controlling Shareholder of the Company
Jiangsu Ruiheng New Material Technology Co., Ltd. (江蘇瑞恒新材料科技有限公司)	Subsidiary of a group which has significant influence over the Controlling Shareholder of the Company
Shanghai Yijia Construction Development Co., Ltd. (上海藝佳建設發展有限公司)	Associate of the Controlling Shareholder
Shanghai LanJin Stone Decoration Co., Ltd. (上海藍金石材裝飾有限公司)	Company controlled by key management personnel

* No longer a company controlled by the controlling shareholder since December 2022.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

35. RELATED PARTY TRANSACTIONS (continued)

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

		For the year ended 31 December	
		2023	2022
	Notes	RMB'000	RMB'000
(1) Operating lease income			
Far East Horizon Leasing (Guangdong) Co., Ltd.	(i)	**231**	–
International Far Eastern Leasing Co., Ltd.	(i)	**165**	165
Jiangsu Ruiheng New Material Technology Co., Ltd.	(ii)	**9**	–
Shanghai Yijia Construction Development Co., Ltd.	(ii)	**5**	–
Sinochem Fuling Chongqing Chemical Industry Co., Ltd.	(ii)	**1**	–
Bluestar Engineering Co., Ltd.	(ii)	**–**	5
Shanghai Jinmao Construction & Decoration Co., Ltd.	(ii)	**–**	83
Shanghai Baiyue Property Service Co., Ltd.	(ii)	**–**	213
		411	466
(2) Sale of goods			
Sinochem Fuling Chongqing Chemical Industry Co., Ltd.	(iii)	**–**	248
(3) Decoration fee			
Shanghai Yijia Construction Development Co., Ltd.	(iv)	**–**	5,668
(4) Purchases of goods			
Shaoxing Shangyu Boteng Metal Products Co., Ltd.	(v)	**77,741**	43,970
Shanghai LanJin Stone Decoration Co., Ltd.	(v)	**360**	–
		78,101	43,970
(5) Interest income			
Sinochem Finance Co., Ltd.	(vi)	**2**	–

NOTES TO FINANCIAL STATEMENTS

31 December 2023

35. RELATED PARTY TRANSACTIONS (continued)

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

Notes:

(i) The operating lease income from related parties arose from the operating lease of premises. The prices were determined on arm's length basis with reference to (a) the location, type, quality, size, area and lease term of the premises; and (b) the prevailing market rates of premises with comparable type, quality and size and situated in the vicinity for similar leasing services provided by the independent third parties.

(ii) The operating lease income from related parties arose from the operating lease of vehicles. The prices were determined on arm's length basis with reference to (a) the specifications, technical requirements, model and lease term of the service vehicles; and (b) the rates of service vehicles with similar specifications, technical requirements and model for similar leasing services provided to the independent third parties.

(iii) The goods sold to the related parties were steel pipes. The transaction prices were determined on arm's length basis with reference to the prevailing market rates of steel pipes provided by the independent third parties.

(iv) The decoration fee was determined on arm's length basis with reference to (a) the status, complexity and construction and decoration raw materials; and (b) the prevailing market rates of comparable construction and decoration services provided by the independent third parties.

(v) The transaction prices were determined on arm's length basis with reference to (a) the specification, model, unit price type and quality of the materials; and (b) the prevailing market rates of similar materials provided by the independent third parties.

(vi) The interest income was earned at a rate of 0.55% per annum.

(c) Outstanding balances with related parties:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
(1) Due from related companies		
Prepayments, other receivables and other assets:		
Shanghai Yijia Construction Development Co., Ltd.	2,009	–
Shaoxing Shangyu Boteng Metal Products Co., Ltd.	–	159
	2,009	159
Trade receivables:		
Shanghai Jinmao Construction & Decoration Co., Ltd.	28	28
Shanghai Baiyue Property Service Co., Ltd.	–	32
	28	60
(2) Due to related companies		
Other payables:		
Far East Horizon Limited	23	23
Trade and bills payables:		
Shaoxing Shangyu Boteng Metal Products Co., Ltd.	4,596	–
Shanghai Yijia Construction Development Co., Ltd.	61	922
	4,657	922

NOTES TO FINANCIAL STATEMENTS

31 December 2023

35. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties: (continued)

At the end of the reporting period, the balances due from/to related parties were unsecured, interest-free and repayable on demand.

	31 December 2023	31 December 2022
	RMB'000	RMB'000
(3) Cash and cash equivalents deposited with a related company		
Sinochem Finance Co., Ltd. (note 23)	–	2,259

(d) Compensation of key management personnel of the Group:

	For the year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Short-term employee benefits	7,165	5,858
Post-employment benefits	312	282
Total compensation paid to key management personnel	7,477	6,140

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

36. 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:

As at 31 December 2023

Financial assets

	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit and loss	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets	802,395	–	–	802,395
Derivative financial instruments	–	–	12,658	12,658
Trade receivables	5,029,820	–	–	5,029,820
Debt investments at fair value through other comprehensive income	–	1,236,738	–	1,236,738
Restricted bank balances	14	–	–	14
Cash and bank balances	2,166,798	–	–	2,166,798
Total	7,999,027	1,236,738	12,658	9,248,423

Financial liabilities

	Financial liabilities at amortised cost	Hedging instruments designated in cash flow hedges	Total
	RMB'000	RMB'000	RMB'000
Trade and bills payables	1,552,487	–	1,552,487
Financial liabilities included in other payables and accruals	141,181	–	141,181
Interest-bearing bank and other borrowings	17,339,232	–	17,339,232
Derivative financial instruments	–	2,581	2,581
Total	19,032,900	2,581	19,035,481

NOTES TO FINANCIAL STATEMENTS

31 December 2023

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

As at 31 December 2022

Financial assets

	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit and loss	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets	542,730	–	–	542,730
Derivative financial instruments	–	–	2,379	2,379
Trade receivables	4,486,990	–	–	4,486,990
Debt investments at fair value through other comprehensive income	–	1,036,355	–	1,036,355
Restricted bank balances	62,944	–	–	62,944
Cash and bank balances	2,159,325	–	–	2,159,325
Total	7,251,989	1,036,355	2,379	8,290,723

Financial liabilities

	Financial liabilities at amortised cost	Hedging instruments designated in cash flow hedges	Total
	RMB'000	RMB'000	RMB'000
Trade and bills payables	1,109,794	–	1,109,794
Financial liabilities included in other payables and accruals	391,122	–	391,122
Interest-bearing bank and other borrowings	21,212,114	–	21,212,114
Derivative financial instruments	–	2,257	2,257
Total	22,713,030	2,257	22,715,287

NOTES TO FINANCIAL STATEMENTS

31 December 2023

36. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial instruments not measured at fair value

Management has assessed that the fair values of cash and cash equivalents, restricted bank balances, trade receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables, and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments. Interest-bearing bank and other borrowings are mostly on floating rate terms and bear interest at prevailing market interest rates and their carrying values approximate to their fair values.

On 25 May 2023, the ordinary shares of the Company were listed on the Stock Exchange, and the redemption obligation was classified to capital reserve. As at 31 December 2022, the fair value of other borrowings on ordinary shares with a redemption obligation was RMB1,346,221,000, which was measured at amortised cost of RMB1,427,118,000. The fair values of the redemption obligation have been calculated by discounting the expected future cash flows using a rate of 11.72%, which was currently available for instruments with the same currency and similar terms and remaining maturities, taking into consideration the Group's own non-performance risk (Level 3).

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

NOTES TO FINANCIAL STATEMENTS

31 December 2023

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets and liabilities measured at fair value:

As at 31 December 2023

Financial assets and liabilities	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Debt investments at fair value through other comprehensive income	–	1,236,738	–	1,236,738
Cross-currency interest rate swap – assets	–	12,658	–	12,658
Interest rate swap – liabilities	–	(2,581)	–	(2,581)

As at 31 December 2022

Financial assets and liabilities	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Debt investments at fair value through other comprehensive income	–	1,036,355	–	1,036,355
Cross-currency interest rate swap – assets	–	2,379	–	2,379
Interest rate swap – liabilities	–	(2,257)	–	(2,257)

NOTES TO FINANCIAL STATEMENTS

31 December 2023

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets and liabilities measured at fair value: (continued)

The fair values of debt investments at fair value through other comprehensive income have been calculated by discounting the future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Derivative financial instruments are the cross-currency interest rate swap and the interest rate swap, whose fair values were calculated by discounting the future cash flows using the forward exchange rate and RMB risk-free rate that are observable market inputs.

The changes in fair values as a result of the Group for debt investments at fair value through other comprehensive income as at 31 December 2023 and 2022 were assessed to be insignificant.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, lease liabilities, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, trade and bills payables, debt investments at fair value through other comprehensive income, restricted bank balances, financial assets included in prepayments, other receivables, and other assets, and financial liabilities included in other payables and accruals, which mainly arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap and cross-currency interest rate swap. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest rate risk

The Group's exposure to risk for changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings. As at 31 December 2023, the Group held one cross-currency interest rate swap with Ping An Bank (2022: one cross-currency interest rate swap). As at 31 December 2023, the Group held one interest rate swap with China Construction Bank (2022: one interest rate swap). The Group aims to mitigate such risk by reducing future variability in cash flows or fair value, while balancing the cost of such risk mitigation measure.

As at 31 December 2023

	Interest-free	Less than 1 year	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Financial assets included in prepayments, other receivables and other assets	802,395	–	–	–	802,395
Derivative financial instruments	12,658	–	–	–	12,658
Trade receivables	5,029,820	–	–	–	5,029,820
Debt investments at fair value through other comprehensive income	1,236,738	–	–	–	1,236,738
Restricted bank balances	–	14	–	–	14
Cash and cash equivalents	–	2,166,798	–	–	2,166,798
Total financial assets	7,081,611	2,166,812	–	–	9,248,423
Financial liabilities					
Trade and bills payables	1,552,487	–	–	–	1,552,487
Financial liabilities included in other payables and accruals	141,181	–	–	–	141,181
Interest-bearing bank and other borrowings	50,153	15,792,421	1,348,479	148,179	17,339,232
Derivative financial instruments	2,581	–	–	–	2,581
Total financial liabilities	1,746,402	15,792,421	1,348,479	148,179	19,035,481
Interest rate sensitivity exposure	5,335,209	(13,625,609)	(1,348,479)	(148,179)	(9,787,058)

NOTES TO FINANCIAL STATEMENTS

31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest rate risk (continued)

As at 31 December 2022

	Interest-free	Less than 1 year	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets					
Financial assets included in prepayments, other receivables and other assets	542,730	–	–	–	542,730
Derivative financial instruments	2,379	–	–	–	2,379
Trade receivables	4,486,990	–	–	–	4,486,990
Debt investments at fair value through other comprehensive income	1,036,355	–	–	–	1,036,355
Restricted bank balances	–	62,944	–	–	62,944
Cash and cash equivalents	–	2,159,325	–	–	2,159,325
Total financial assets	6,068,454	2,222,269	–	–	8,290,723
Financial liabilities					
Trade and bills payables	1,109,794	–	–	–	1,109,794
Financial liabilities included in other payables and accruals	391,122	–	–	–	391,122
Interest-bearing bank and other borrowings	1,752	17,209,018	3,731,344	270,000	21,212,114
Derivative financial instruments	2,257	–	–	–	2,257
Total financial liabilities	1,504,925	17,209,018	3,731,344	270,000	22,715,287
Interest rate sensitivity exposure	4,563,529	(14,986,749)	(3,731,344)	(270,000)	(14,424,564)

NOTES TO FINANCIAL STATEMENTS

31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rate (without considering the cross-currency interest rate swap with Bank of Ping An and the interest rate swap with China Construction Bank), with all other variables held constant, of the Group's profit before tax.

	Increase/(decrease) in profit before tax	
	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Change in basis points		
+100 basis points	**(76,955)**	(104,765)
-100 basis points	**76,955**	104,765

(b) Foreign currency risk

The Group's monetary assets, liabilities and transactions are principally denominated in RMB. The Group has transactional currency exposures. Such exposures mainly arise from the Group's interest-bearing bank and other borrowings that are denominated in USD. As at 31 December 2023, the Group held one cross-currency interest rate swap with Ping An Bank (2022: one cross-currency interest rate swap). The following table demonstrates the sensitivity at the end of the year to a reasonably possible change in the USD exchange rate (without considering the cross-currency interest rate swap with Ping An Bank), with all other variables held constant, of the Group's profit before tax.

For the year ended 31 December 2023

	Increase/(decrease) in foreign currency rate	**Increase/(decrease) in profit before tax**
	%	RMB'000
If RMB weakens against USD	**1**	**(1,326)**
If RMB strengthens against USD	**(1)**	**1,326**

For the year ended 31 December 2022

	Increase/(decrease) in foreign currency rate	Increase/(decrease) in profit before tax
	%	RMB'000
If RMB weakens against USD	1	(15,865)
If RMB strengthens against USD	(1)	15,865

NOTES TO FINANCIAL STATEMENTS

31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances and contract assets are monitored on an ongoing basis.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2023 and 2022.

As at 31 December 2023

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets**	802,395	–	–	–	802,395
Derivative financial instruments	12,658	–	–	–	12,658
Trade receivables*	–	–	–	5,029,820	5,029,820
Contract assets*	–	–	–	383,863	383,863
Debt investments at fair value through other comprehensive income	1,236,738	–	–	–	1,236,738
Restricted bank balances – Not yet past due	14	–	–	–	14
Cash and cash equivalents – Not yet past due	2,166,798	–	–	–	2,166,798
Total	4,218,603	–	–	5,413,683	9,632,286

NOTES TO FINANCIAL STATEMENTS

31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk (continued)

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets**	542,730	–	–	–	542,730
Derivative financial instruments	2,379	–	–	–	2,379
Trade receivables*	–	–	–	4,486,990	4,486,990
Contract assets*	–	–	–	304,295	304,295
Debt investments at fair value through other comprehensive income	1,036,355	–	–	–	1,036,355
Restricted bank balances – Not yet past due	62,944	–	–	–	62,944
Cash and cash equivalents – Not yet past due	2,159,325	–	–	–	2,159,325
Total	3,803,733	–	–	4,791,285	8,595,018

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the credit risk exposure is disclosed in notes 19 and 21 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets and notes receivable classified as financial assets at fair value through other comprehensive income is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings and lease liabilities.

The maturity profile of the Group's financial liabilities as at the end of each of the year, based on the contractual undiscounted payments, is as follows:

As at 31 December 2023

	On demand	Less than 1 year	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	48,113	1,504,374	–	–	1,552,487
Financial liabilities included in other payables and accruals	–	129,413	11,768	–	141,181
Interest-bearing bank and other borrowings	49,029	7,199,641	10,744,561	377,459	18,370,690
Lease liabilities	–	237,354	648,859	51,045	937,258
Derivative financial instruments	–	–	2,581	–	2,581
Total	97,142	9,070,782	11,407,769	428,504	21,004,197

As at 31 December 2022

	On demand	Less than 1 year	1 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	22,666	1,087,128	–	–	1,109,794
Financial liabilities included in other payables and accruals	–	138,704	252,418	–	391,122
Interest-bearing bank and other borrowings	1,752	6,882,726	16,079,613	160,267	23,124,358
Lease liabilities	–	64,116	74,303	333	138,752
Derivative financial instruments	–	–	2,257	–	2,257
Total	24,418	8,172,674	16,408,591	160,600	24,766,283

NOTES TO FINANCIAL STATEMENTS

31 December 2023

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Capital management

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

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, raise new debt, or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes interest-bearing bank and other borrowings, lease liabilities, less cash and cash equivalents. Total equity includes equity attributable to equity holders of the parent and non-controlling interests.

The gearing ratio as at the end of the year is as follows:

	31 December 2023	31 December 2022
	RMB'000	RMB'000
		(Restated)
Interest-bearing bank and other borrowings	17,339,232	21,212,114
Lease liabilities	693,604	131,259
Less: Cash and cash equivalents	(2,166,798)	(2,159,325)
Net debt	15,866,038	19,184,048
Total equity	10,777,667	6,672,192
Total equity and net debt	26,643,705	25,856,240
Gearing ratio	60%	74%

39. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event undertaken by the Group after 31 December 2023.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

40. NOTES TO THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statements of financial position of the Company at the end of the reporting period is as follows:

		31 December 2023	31 December 2022
	Note	RMB'000	RMB'000
NON-CURRENT ASSETS			
Investment in a subsidiary		26,750	55
Total non-current assets		26,750	55
CURRENT ASSETS			
Prepayments, other receivables and other assets		7,248,805	5,990,540
Cash and cash equivalents		163,324	22,438
Total current assets		7,412,129	6,012,978
CURRENT LIABILITIES			
Trade and bills payables		2,764	–
Other payables and accruals		17,630	40,505
Total current liabilities		20,394	40,505
NET CURRENT ASSETS		7,391,735	5,972,473
TOTAL ASSETS LESS CURRENT LIABILITIES		7,418,485	5,972,528
NON-CURRENT LIABILITIES			
Other payables and accruals		–	181,159
Other borrowings		–	1,427,118
Total non-current liabilities		–	1,608,277
Net assets		7,418,485	4,364,251
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	421	370
Reserves		7,418,064	4,363,881
Total equity		7,418,485	4,364,251

Pan Yang
Director

Tang Li
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2023

40. NOTES TO THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

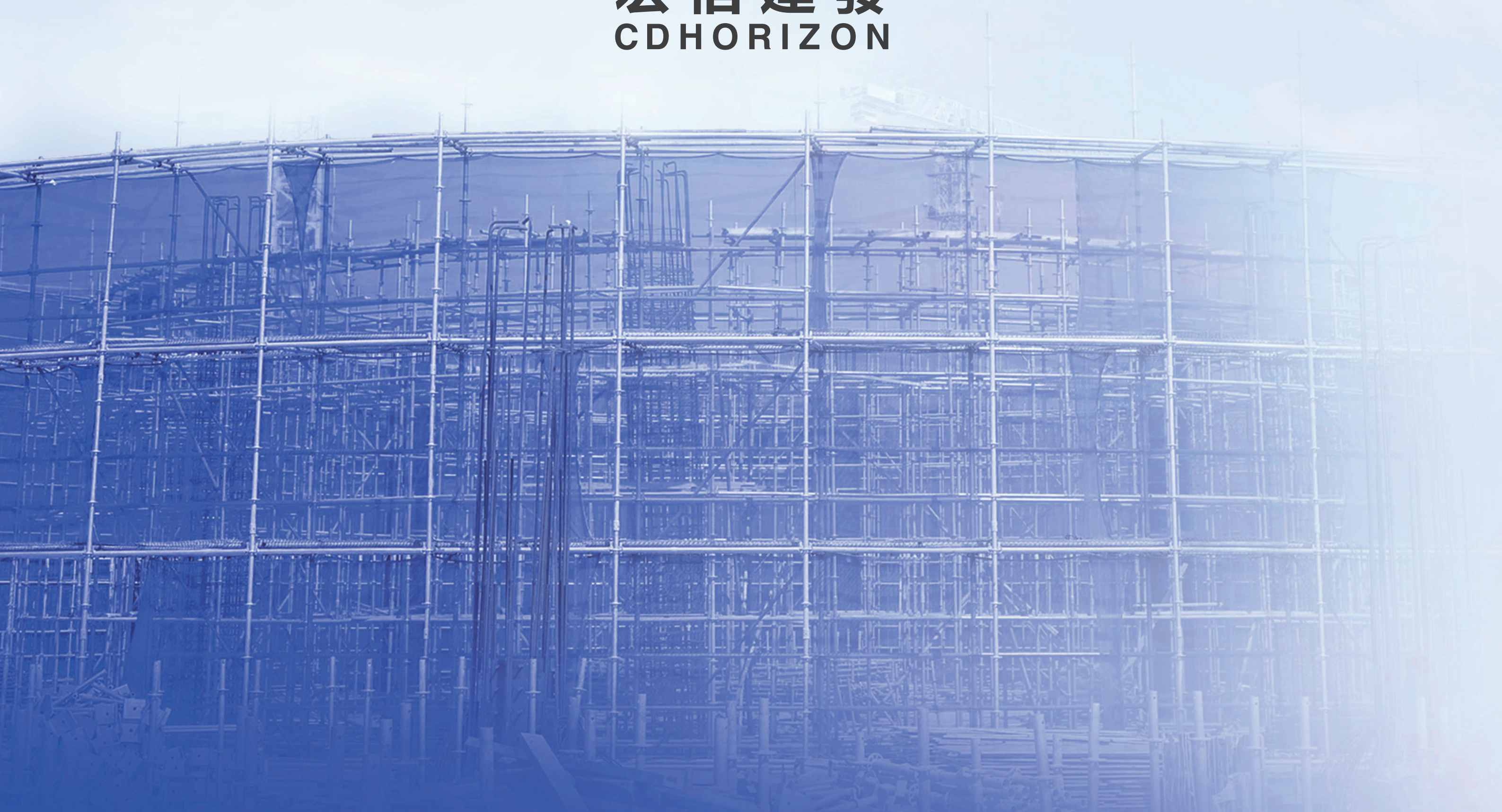
A summary of the Company's reserves is as follows:

	Share capital	Share premium	Merger reserve	Capital reserve	Retained profits	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2022	370	6,066,695	(29,862)	(1,296,268)	(103,095)	4,637,840
Profit for the year	–	–	–	–	(273,589)	(273,589)
Total comprehensive income for the year	–	–	–	–	(273,589)	(273,589)
At 31 December 2022 and 1 January 2023	370	6,066,695	(29,862)	(1,296,268)	(376,684)	4,364,251
Profit for the year	–	–	–	–	(88,855)	(88,855)
Total comprehensive income for the year	–	–	–	–	(88,855)	(88,855)
Issue of shares	51	1,488,278	–	–	–	1,488,329
Share issue expenses	–	(21,516)	–	–	–	(21,516)
The termination of the redemption obligation of ordinary shares	–	–	–	1,676,276	–	1,676,276
At 31 December 2023	421	7,533,457	(29,862)	380,008	(465,539)	7,418,485

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements was approved and authorised for issue by the board of directors on 12 March 2024.

宏信建發
CDHORIZON



Headquarters Address: No. 5, 6-610, Build 2, Minghai Center, 200 Xichang Road, Pilot Free Trade Zone (Dongjiang Bonded Port Zone), Tianjin, PRC
National Service Hotline: 400-821-8001