



2023 ANNUAL REPORT

Hyfusin Group Holdings Limited
凱富善集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8512



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CORPORATE INFORMATION

Board of Directors	Executive Directors Mr. Wong Wai Chit (<i>Chairman</i>) Mr. Wong Man Chit (<i>Chief Executive Officer</i>)
	Independent Non-executive Directors Mr. Chan Cheong Tat Mr. Ho Chi Wai Mr. Chu Kin Wang, Peleus
Audit committee	Mr. Chan Cheong Tat (<i>Chairman</i>) Mr. Ho Chi Wai Mr. Chu Kin Wang, Peleus
Remuneration committee	Mr. Chu Kin Wang, Peleus (<i>Chairman</i>) Mr. Chan Cheong Tat Mr. Ho Chi Wai
Nomination committee	Mr. Ho Chi Wai (<i>Chairman</i>) Mr. Chan Cheong Tat Mr. Chu Kin Wang, Peleus
Company secretary	Ms. Leung Shui Bing
Authorised representatives	Mr. Wong Wai Chit Ms. Leung Shui Bing
Compliance officer	Mr. Wong Wai Chit
Registered office	Windward 3, Regatta Office Park PO Box 1350 Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in Hong Kong	Unit Nos.4–8, 2/F Aberdeen Marina Tower 8 Shum Wan Road Aberdeen Hong Kong
Company's website address	http://www.hyfusingroup.com
Principal share registrar and transfer office	Ocorian Trust (Cayman) Limited Windward 3, Regatta Office Park PO Box 1350 Grand Cayman KY1-1108 Cayman Islands

Hong Kong branch share registrar and transfer office

Union Registrars Limited
Suites 3301–04, 33/F
Two Chinachem Exchange Square
338 King's Road, North Point
Hong Kong

Principal bankers

Shanghai Commercial Bank Limited
Shanghai Commercial Bank Tower
12 Queen's Road Central
Hong Kong

DBS Bank (Hong Kong) Limited
16/F, The Center
99 Queen's Road, Central
Hong Kong

Shinhan Bank Vietnam
Floor 9, Sonadezi Tower
No.1, 1 Street, Bion Hoa IZ1
Bien Hoa, Dong Nai
Vietnam

Public Bank Vietnam
251 Pham Van Thuan Street
Tan Mai Ward, Bien Hoa City, Dong Nai
Vietnam

Compliance Adviser

TC Capital International Limited
Suite 3508, 35/F, Tower 6
The Gateway, Harbour City
9 Canton Road, Tsim Sha Tsui
Kowloon, Hong Kong

Auditor

BDO Limited
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of Directors of the Group is pleased to present the audited consolidated financial results of the Group for the year ended 31 December 2023 to the shareholders of the Company (the “**Shareholders**”).

REVIEW OF RESULTS

For the year ended 31 December 2023, the Group's revenue was approximately HK\$866.3 million. The Group recorded a net profit of approximately HK\$102.3 million for the year ended 31 December 2023.

LISTING IN HONG KONG

On 19 July 2018 (the “**Listing Date**”), the Company had been successfully listed on GEM of the Stock Exchange in Hong Kong (the “**Listing**”), demonstrating the realisation of capital expansion and structure optimisation of the Company as well as enhancing the recognition and social influence of the Company.

BUSINESS REVIEW

The Group is principally engaged in the manufacturing and sale of candle products with headquarters in Hong Kong and operations in Vietnam. The Group mainly manufactures and sells daily-use candles, scented candles, decorative candles and other products such as diffusers. The major customers of the Group are mostly U.S. and U.K. department store operators and buying agents.

The Group mainly manufactures candle products based on the requirements and specifications from its customers. The Group would also assess the design and specifications and put forward suggestions to its customers. The Group offers a wide variety of services to its customers ranging from product design, raw material selection and procurement, provision of sample candle before mass production, laboratory testing to recommendation to improve the product quality.

The Group targets in mid-to-high end candle products in overseas markets in different countries and regions, mainly in U.S. and U.K. markets. The candle market has an increasing preference over candle products which are scented and with colour additives. With the preference for candle products with scent and coloured additives for use in rooms and households, increasing demand for scented candle products has provided the impetus for the whole market. We are welcomed and favoured by consumers, and are therefore confident about the future business development of the Group.

The Group aims to be the competitive manufacturer among the industry, which requires the fostering of various abilities. The Group has encountered numerous challenges, such as completion of construction of new factory during the novel coronavirus pandemic spread in Vietnam, customers' orders decrease due to destocking, the sharp increase in raw materials in previous year and the claim from a customer for its voluntary recall in 2023. These challenges prompted us to further strengthen the organizational capacity to counter the challenges posed by the uncertainty of the external environment.

Our production capacity for candle products was enhanced by highly automation of the new factory that went into mass production in 2022. The Group expects the third factory under construction during the year of 2023, will be completed in the first half of 2024 and will further enhance the Group's production capacity and efficiency in foreseeable future. The expansion of production capacity will contribute to our rapid development to catch up with the rapid growth of candle markets in the U.S. market.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the year ended 31 December 2023, the Group has continued to focus on the development of our main business and enhances production and operation. Due to the high demand in candle products, the level of customers' order hit the record high of the Group. The Group continues to improve the gross profit margin, benefiting from the lower unit price of raw materials and lower production overhead from synergy of high automation of the new factory. The Group continuously improve the liquidity position by lower the external borrowing during the high interest rate period.

The Group continues to improve our product strength, efficiency and capability in both operation and production. As a result of the improvement of these capabilities, the Group have achieved good market performance in 2023.

The analysis of product segment of the Group for the year ended 31 December 2023 is set out in Note 6 to the consolidated financial statements. The scented candles remains the best selling product of the Group during the year ended 31 December 2023, which the sale of scented candles increased by approximately HK\$134.9 million or 28.3% as compared with the same period in 2022. It reflects the trend of preference for candle products with scent and coloured additives remains the same in the U.S. market.

In order to catch up the rapid growth of candle products especially in the U.S. market, the Group entered into the contracts with sales representatives for the sales incentive to sales representatives for the orders from customers introduced by them. The management of the Group gladly cooperates with sales representatives and expects the potential orders introduced by sales representatives in future.

Based on the well established long-term relationships with the customers and with support from our experienced management team of the Group in the industry, the Group has confidence in capturing business opportunities and growth in future.

FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2023 amounted to approximately HK\$866.3 million, representing an increase of approximately HK\$181.4 million or 26.5% as compared with that of approximately HK\$684.9 million for the same period in 2022.

The increase in revenue was due to the increase in sale of scented candles and other candle products for approximately HK\$134.9 million and HK\$28.3 million respectively for the year ended 31 December 2023.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Gross profit and gross profit margin

Gross profit for the year ended 31 December 2023 amounted to approximately HK\$335.5 million, representing an increase of approximately HK\$127.8 million or 61.5% as compared with that of approximately HK\$207.7 million for the same period in 2022.

The gross profit margin increased to approximately 38.7% for the year ended 31 December 2023 as compared with that of 30.3% for the same period in 2022. The increase in the gross profit margin was mainly due to the decrease in the unit price of raw materials and the decrease of production overhead for the year ended 31 December 2023.

Other income

Other income for the year ended 31 December 2023 was approximately HK\$9.1 million, representing an increase of approximately HK\$5.6 million or 160.0% compared to that of approximately HK\$3.5 million for the same period in 2022. The increase in other income mainly due to the increase in bank interest income of approximately HK\$4.3 million.

Other gains and losses, net

Other gains for the year ended 31 December 2023 amounted to approximately HK\$1.8 million, representing an increase of approximately HK\$0.8 million or 80% as compared with other gains of approximately HK\$1.0 million for the same period in 2022. The increase was mainly due to the increase in exchange gain for approximately HK\$1.8 million for the year ended 31 December 2023.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2023 amounted to approximately HK\$86.2 million, representing an increase of approximately HK\$59.2 million or 219.3% as compared with that of approximately HK\$27.0 million for the same period in 2022.

The increase was mainly due to (i) a provision of claim for the recall for approximately HK\$53.0 million; and (ii) increase in marketing and promotion expenses for approximately HK\$4.8 million.

Administrative expenses

Administrative expenses for the year ended 31 December 2023 amounted to approximately HK\$110.7 million, representing an increase of approximately HK\$23.7 million or 27.2% as compared with that of approximately HK\$87.0 million for the same period in 2022. The increase in administrative expenses was mainly due to the increase in salary, bonus and allowance for HK\$23.0 million.

Finance costs

Finance costs for the year ended 31 December 2023 amounted to approximately HK\$14.6 million, representing an increase of approximately HK\$5.8 million or 65.9% as compared to that of approximately HK\$8.8 million for the same period in 2022.

The increase was mainly due to increase in interest rate of bank borrowings for business operation.

Income tax expenses

Income tax expenses for the year ended 31 December 2023 amounted to approximately HK\$32.7 million, representing an increase of approximately HK\$16.3 million or 99.4% as compared with that of approximately HK\$16.4 million for the same period in 2022. The increase in income tax expenses was mainly due to increase in assessable profits for the year.

Profit for the year

Excluding the impact of the provision of claim of the recall, the Group generated net profit of approximately HK\$155.3 million for the year ended 31 December 2023 representing an increase of approximately HK\$82.2 million or 112.4% as compared with net profit of approximately HK\$73.1million for the same period in 2022.

Including the impact of the provision of claim of the recall, the Group generated net profit of approximately HK\$102.3 million for the year ended 31 December 2023 representing an increase of approximately HK\$29.2 million or 39.9% as compared with net profit of approximately HK\$73.1million for the same period in 2022.

Such increase was mainly due to increase in gross profit of approximately HK\$127.8 million and offset by (a) increase in selling expenses of approximately HK\$59.2 million; (b) increase in administrative expenses of approximately HK\$23.7 million; and (c) increase in income tax expenses of approximately HK\$16.2 million.

Dividend

The Board does not recommend the payment of any dividend for the year ended 31 December 2023. The detail is disclosed in Note 14 of the consolidated financial statements.

Liquidity and Financial Resources

As at 31 December 2023, the Group had total assets of approximately HK\$686.9 million (2022: approximately HK\$501.3 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$181.3 million (2022: approximately HK\$98.0 million) and approximately HK\$505.6 million (2022: approximately HK\$403.3 million) respectively.

The total interest-bearing borrowings of the Group as at 31 December 2023 were approximately HK\$15.0 million (31 December 2022: approximately HK\$49.7 million), and the current ratio of the Group as at 31 December 2023 was approximately 3.0 times (31 December 2022: approximately 5.1 times) mainly due to the increase in cash and cash equivalents while a provision of claim for the recall was made in 2023.

The Group's gearing ratio, which is calculated by dividing total debt by total equity as at the end of each of the financial year, decreased from approximately 13.4% as at 31 December 2022 to approximately 3.6% as at 31 December 2023, primarily due to the decrease in bank borrowings.

As at 31 December 2023 and 2022, the Group has unutilised banking facilities of approximately HK\$103.6 million and HK\$72.4 million respectively.

The Directors are of the view that as at the date hereof, the Group's financial resources are sufficient to support its business and operations.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Treasury Policy

The Group adopts a prudent financial management approach towards its treasury policy and thus maintained a healthy liquidity position throughout the reporting period. The management of the Group regularly reviews the recoverable amount of trade receivables by performing ongoing credit assessments and monitoring prompt recovery and if necessary to make adequate impairment losses for irrecoverable amounts. In order to achieve better cost control and minimise the cost of funds, the Group's treasury activities are centralised and cash is generally deposited with leading licensed banks in Hong Kong and denominated in US dollars.

Capital Structure

The Company's shares were successfully listed on GEM on 19 July 2018. There has been no change in the Company's capital structure since 19 July 2018 to 31 December 2023. The capital structure of the Group comprises of issued share capital and reserves. The Directors review the Group's capital structure regularly.

As at 31 December 2023, the Company's issued share capital was HK\$11,000,000 and the number of its issued ordinary shares was 1,100,000,000 of HK\$0.01 each.

Pledge of Assets

As at 31 December 2023 and 2022, the Group had pledged certain assets including property, plant and equipment, right-of-use assets, debt instruments at fair value through other comprehensive income, financial asset at fair value through profit or loss, pledged bank deposits with carrying amounts of approximately HK\$110.1 million and HK\$112.5 million respectively to secure the Group's bank borrowings.

Future Plans for Material Investments or Capital Assets

Save as disclosed in the prospectus of the Company dated 29 June 2018 (the "**Prospectus**") and this annual report, the Group did not have any other plans for material investment and capital assets as at 31 December 2023.

Foreign Currency Exposure

The majority transactions of expenditure and bank borrowings of the Group are denominated in foreign currencies which are different from the functional currency of the Group, i.e. US dollar. The Group is mainly exposed to foreign exchange risk arising from transactions that are denominated in Hong Kong dollar and Vietnamese dong. During the year ended 31 December 2023, the Group did not have any hedging arrangements. The Group currently does not have a foreign currency hedging policy. However, the management of the Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arises. The management of the Group considers the exposure to the foreign exchange risk fluctuation for the Group is not material.

Capital Commitments

As at 31 December 2023, the Group had capital commitments of approximately HK\$30.2 million in respect of property, plant and equipment and construction in Vietnam (2022: approximately HK\$0.25 million).

Contingent Liabilities

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

Employees and Remuneration Policies

As at 31 December 2023, the Group employed approximately 1,270 (2022: approximately 1,060) staff (including executive Directors). The total amount of employee remuneration of the Group (including Directors' remuneration) for the year was approximately HK\$141.2 million (2022: approximately HK\$110.0 million).

The Company adopted the share option scheme on 23 June 2018 (the "**Share Option Scheme**") for the purpose to provide the Company with a flexible means of giving incentive and reward to employee of the Group for incentive or reward for their contribution to the Group. Details have been set out in the paragraph headed "Share Option Scheme" in the Directors' Report and Note 30 to the consolidated financial statements.

The Group determines the employees' remuneration based on factors such as qualification, duty, contributions and years of experience. In addition, the Group provides comprehensive training programs to its employees or sponsors the employees to attend various job-related training courses.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Capital Assets

As disclosed in the announcement of the Company dated 6 July 2023 and the circular of the Company dated 26 July 2023, Fleming International Vietnam Limited, an indirect wholly-owned subsidiary of the Company, entered into (i) the construction contract at the contract price of VND135,000,000,000 (equivalent to approximately HK\$44.9 million) with the independent contractor in relation to the construction of a new factory on the land located at plot no. 56 map sheet No. 10, Amata Road, Amata Industrial Park, Long Binh Park, Bien Hoa City, Dong Nai Province, Vietnam which acquired in 2022 (the "**Land**"); and (ii) the service agreement with the independent service provider for the provision of project management and construction management services in respect of the works to be carried out by the aforesaid independent contractor on the Land at the service fee of VND3,550,500,000 (equivalent to approximately HK\$1.2 million).

The building construction work of the new factory commenced in July 2023 with the completion of approximately 55.9% of total construction work as at 31 December 2023 and now is expected to complete by first half of 2024 subject to any extension of time for completion.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at 31 December 2023, the total amount of approximately VND 75,410,000,000 (equivalent to approximately HK\$24.3 million) and approximately VND 2,929,162,500 (equivalent to approximately HK\$0.9 million) were paid in accordance with the construction contract and service agreement for project and construction management provider respectively.

The Board considers that the terms of the construction contract and the service agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Board has reconsidered the Group's initial plan to utilise the Land solely for storage facilities. After careful evaluation, the Board believes it would be more advantageous for the Group to build a new factory on the Land, which would encompass both production facilities and warehouses.

For further details, please refer to the announcements of the Company dated 9 March 2022 and 6 July 2023, and the circular of the Company dated 26 July 2023.

Save as disclosed above and other than disclosed as elsewhere in this annual report, the Group did not have any significant investments, material acquisitions and disposals of subsidiaries and capital assets during the year ended 31 December 2023.

PRINCIPAL RISKS AND UNCERTAINTIES

There are certain risks and uncertainties involved in the Group's current operations, some of which are beyond the Group's control. The most significant risks relating to the business such as (i) fluctuations in prices of raw materials or unstable supply of raw materials could negatively impact the operations and may affect our profitability; (ii) our business is concentrated in the U.S. and the U.K. and is highly susceptible to any adverse economic or social conditions in these markets which would materially and adversely affect the demand for the products; (iii) our business relies on key management personnel; (iv) operational risk; and (v) the credit risk of trade receivables that the cash flow position may be affected. A detailed discussion of the risk factors is set out in the section headed "Risk Factors" in the Prospectus.

OUTLOOK

Looking forward, the business and operation environments of the Group will remain challenging. Nevertheless, we will embrace these challenges by implementing proactive marketing strategies, investing more resources for product development and reinforcing on cost control measures.

Based on our success, we remain optimistic about the Group's future development. We intend to execute our development plan as set forth in the Prospectus carefully and prudently for the purpose of bringing a desirable return to the Shareholders and facilitating the long-term growth of the business of the Group.

USE OF PROCEEDS

The net proceeds received by the Group from the Listing after deducting the relevant one-off and non-recurring listing expenses amounted to approximately HK\$44.5 million (based on the public offering price of HK\$0.295 per share), which was below the estimated net proceeds of approximately HK\$50.5 million (estimated on the assumption that the public offering price would be HK\$1.1 per share), the midpoint of the range stated in the Prospectus.

The following sets forth a summary of the allocation of the net proceeds and its utilisation as at 31 December 2023, as compared to that envisaged in the Prospectus.

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as stated in the Prospectus with the Group's actual business progress for the period from the Listing Date (i.e. 19 July 2018) to 31 December 2023 is set out below:

	Approximate amount of net proceeds HK\$ million	Approximate% of net proceeds %	Unused amount of net proceeds as at 1 January 2023 HK\$ million	Approximate actual utilised during the reporting period HK\$ million	Approximate actual utilised as at 31 December 2023 HK\$ million	Unused amount of net proceeds as at 31 December 2023 HK\$ million
Upgrade existing production facilities	6.2	13.9	6.2	-	-	6.2
Acquisition of new production facilities	18.1	40.7	-	-	18.1	-
Purchase of new machinery	9.2	20.7	-	-	9.2	-
Installation of Enterprise Resource Planning ("ERP") systems	2.0	4.5	0.8	0.8	2.0	-
Partial repayment of bank loans	6.9	15.5	-	-	6.9	-
General working capital	2.1	4.7	-	-	2.1	-
	44.5	100.0	7.0	0.8	38.3	6.2

Upgrade existing production facilities

As at 31 December 2023, the management of the Group may consider the renovation of existing production facilities will be planned and implemented after the completion of the new building construction work of the new factory that commenced in July 2023 and expected to complete by first half of 2024, which is the more efficient to the operation of the Group.

Acquisition of new production facility

In 2019, the Group completed the acquisition of the new land for new production facility. In 2021, the Group's building construction of new production facility was completed and fully utilised approximately HK\$18.1 million from part of net proceeds allocated for the new production facility.

Acquisition of new machinery

The Group paid approximately HK\$9.2 million for the acquisition of machineries for the expected increasing purchase orders from its customers.

Installation of ERP systems

As at 31 December 2023, the Group paid approximately HK\$2.0 million for the related expenses of the ERP systems for production, warehouse management and customer relationship management.

Partial repayment of bank loans

The Group repaid the balance of bank loans in Hong Kong and Vietnam of approximately HK\$2.9 million and repaid overdraft in Hong Kong amounting to approximately HK\$4.0 million.

Except as explained above, the Group intends to continue to apply the net proceeds received from the Listing in the manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

All the unutilised balances of net proceeds have been placed in licensed banks for short-term deposits.

The Directors are not aware of any material change to the planned use of proceeds as at the date of this annual report.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board acknowledges the importance of good corporate governance practices and believes that maintaining a high standard of corporate governance practices is crucial to the development of the Company. The Board will continue to review its corporate governance practices in order to enhance its corporate governance standards, comply with the increasingly complicated regulatory requirements, and meet with the rising expectations of the Shareholders and respective investors. The Corporate Governance Code (the “**CG Code**”) as set out in Appendix C1 to the GEM Listing Rules has been applicable to the Company from the Listing Date. The Board is of the view that during the year ended 31 December 2023 (the “**Relevant Period**”), the Company has complied with all applicable code provisions as set out in the CG Code.

The key corporate governance principles and practices of the Company are summarised as follows:

CHAIRMAN AND CHIEF EXECUTIVE

According to the code provision C.2.1 of the CG Code, the roles of the chairman and the chief executive should be separate and should not be performed by the same individual. During the Relevant Period, the role of the chairman of the Company was performed by Mr. Wong Wai Chit who was responsible for overall management and strategic development of the Group, and the executive functions of a chief executive officer were discharged by Mr. Wong Man Chit as the chief executive officer of the Company who was responsible for overall operation of the Group.

In accordance with article 132 of the Memorandum and Articles of Association (the “**Articles**”) of the Company, the Directors may elect a chairman of the Board meetings and determine the period for which he/she is to hold office. If no such chairman is elected, the Directors present may choose one of their members to be chairman of the meeting. The Board considers this arrangement allows contributions from all Directors with different expertise to manage the Group’s overall business development, implementation and management.

The primary duties of the chairman are to ensure that all Directors are properly briefed on issues arising at Board meetings; ensure that Directors receive, in a timely manner, adequate information, which must be accurate, clear, complete and reliable; provide leadership for the board and ensure that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner; ensure that good corporate governance practices and procedures are established; encourage all Directors to make a full and active contribution to the Board’s affairs; allow sufficient time for discussion of issues among Directors; ensure that Board decisions fairly reflect Board consensus; at least annually hold meetings with the independent non-executive Directors without the presence of other Directors; enhance effective communication with shareholders and ensure that their views are communicated to the Board as a whole; and facilitating the effective contribution of independent non-executive Directors in particular and ensure constructive relations between executive Directors and independent non-executive Directors.

BOARD OF DIRECTORS

The Board cultivates good governance as the cornerstone of the Group's corporate culture. The Board is responsible for the leadership and control of the Company and is accountable to the Shareholders for the strategic development of the Group with a targeted goal in respect of maximising long-term Shareholder value, while balancing stakeholders' interests. The Board formulates the overall strategic direction, while the management is delegated with the power to implement policies and strategies as set out by the Board. The Board has also delegated the day-to-day responsibility to the executive Directors who will meet regularly to review the financial results and performance of the Group. The Group oversees the Group's affairs in a responsible and effective manner. The Board does not delegate matters to the Board committees, executive Directors or management to an extent that would significantly hinder or reduce the ability of the Board as a whole to perform its functions.

The management provides sufficient explanation and information to the Board to enable it to make an informed assessment of financial and other information put before it for approval. It also provides to all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties under Rule 5.01 and Chapter 17 of the GEM Listing Rules.

The Board has a balanced composition of executive and non-executive Directors. Currently, the Board comprises two executive Directors and three independent non-executive Directors. At all times during the Relevant Period, the independent non-executive Directors represented at least one-third of the Board. Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing from 19 July 2021 which shall continue thereafter unless and until terminated by not less than three months' notice in writing served by either party on the other. Mr. Chan Cheong Tat and Mr. Ho Chi Wai entered into a letter of appointment as independent non-executive Directors with the Company for a three years commencing from 19 July 2021, while Mr. Chu Kin Wang, Peleus entered into a letter of appointment as independent non-executive Director with the Company for an initial term of three years commencing from 1 December 2021, all of which shall continue thereafter unless and until terminated by not less than three months' notice in writing by either party on the other. Their appointments are subject to retirement by rotation and re-election at the Company's annual general meeting ("**AGM**") in accordance with the Articles.

The composition of the Board is as follows:

Executive Directors

Mr. Wong Wai Chit (*Chairman*)

Mr. Wong Man Chit (*Chief Executive Officer*)

Independent non-executive Directors

Mr. Chan Cheong Tat

Mr. Ho Chi Wai

Mr. Chu Kin Wang, Peleus

The biographical information of the Directors, which is set out on pages 28 to 31 in this annual report, demonstrates a balance of skills, experience and diversity perspectives of the Board. Except as disclosed in the biography of Directors, the Directors have no financial, business, family or other material/relevant relationships with the any other Director and chief executive.

The Company has throughout the Relevant Period met the requirements of the GEM Listing Rules relating to the appointment of the independent non-executive Directors with at least one of them possessing appropriate accounting professional qualifications as required under Rule 5.05(2) of the GEM Listing Rules. Mr. Ho Chi Wai and Mr. Chu Kin Wang, Peleus are independent non-executive Directors who possess the appropriate professional qualifications, or accounting or related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules. Each of the independent non-executive Directors has submitted a written statement to the Stock Exchange confirming their independence prior to their respective appointment and has undertaken to inform the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect their independence. The Company has also received a written confirmation from each of the independent non-executive Directors in respect of their independence during the year ended 31 December 2023. The Board considers that all independent non-executive Directors were considered to be independent by reference to the factors stated in Rule 5.09 of the GEM Listing Rules throughout the Relevant Period.

In accordance with article 108(a) of the Articles, at each AGM 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 shall be subject to retirement by rotation at least once every three years. Such retiring Directors shall be eligible for re-election at the AGM.

In accordance with article 112 of the Articles, any Director appointed by the Board during the year to fill a casual vacancy shall hold office only until the first AGM after such appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the first AGM after such appointment and shall then be eligible for re-election. Any Director appointed under article 112 of the Articles shall not be taken into account in determining the Directors of the number of Directors who are to retire by rotation at the AGM. Other matters reserved for the Board include consideration of dividend policy, approval of major investments and review of the corporate governance practices of the Group. Daily operations and administration are delegated to management teams.

The Company has arranged insurance cover in respect of legal action against its Directors. The insurance coverage is reviewed at least annually to ensure that the Directors and officers are adequately protected against potential liabilities.

Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request made to the Board.

BOARD INDEPENDENCE

The Company believes that the independence of the Board is significant to good corporate governance and Board effectiveness. The Board has mechanisms in place to ensure independent opinions from any Director are delivered to the Board for enhancing an objective and effective decision making process.

The governance framework and the following mechanisms are reviewed annually by the Board, through the nomination committee of the Company (the “**Nomination Committee**”), to ensure their effectiveness:

1. Three out of the five Directors are independent non-executive Directors, which meets the requirements of the GEM Listing Rules that the Board must have at least three independent non-executive Directors and must appoint independent non-executive Directors representing at least one-third of the Board.
2. The Nomination Committee will assess the independence, qualification, integrity and time commitment of a candidate who is nominated to be a new independent non-executive Director before appointment and also the continued independence of existing independent non-executive Directors and their time commitments annually. On an annual basis, all independent non-executive Directors are required to confirm in writing their compliance of independence requirements, and to disclose the number and nature of offices held by them in public companies or organisations.
3. The Nomination Committee will arrange the evaluation of the independent non-executive Directors annually to assess their contributions.
4. External independent professional advice is available as and when required by individual Directors.
5. All Directors are encouraged to express their independent opinions and constructive challenges during the meetings.
6. No equity-based remuneration with performance-related elements will be granted to independent non-executive Directors.
7. A Director (including independent non-executive Director) who has a material interest in a contract, arrangement or other proposal shall not vote or be counted in the quorum on any Board resolution approving the same.
8. The chairman of the Board meets with independent non-executive Directors annually without the presence of the executive Director.

During the Relevant Period, the Board has reviewed the implementation of such mechanism and confirmed its effectiveness.

NOMINATION COMMITTEE

The Company established the Nomination Committee on 23 June 2018 with specific written terms of reference in compliance with the CG Code as set out in C1 to the GEM Listing Rules. The terms of reference setting out the Nomination Committee's authority, duties and responsibilities are available on both the Stock Exchange's website and the Company's website. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identify qualified individuals to become Board members; assess the independence of independent non-executive Directors; make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors; and monitor the implementation of the board diversity policy (the "**Diversity Policy**") on an ongoing basis. The Nomination Committee is provided with sufficient resources to discharge its duties.

To facilitate sustainable and balanced development of the Company, the Nomination Committee has adopted a Diversity Policy, which sets out the approach to achieve diversity of the Board. Under the Diversity Policy, the appointment and/or recommendation for appointment will be based on objective criteria, having due regard to the benefits of diversity on the Board, including, among others, the candidates' gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. Decisions of the Nomination Committee are made based on the merits and contribution of the selected candidates.

The Board and the Nomination Committee will review the Diversity Policy at least annually to ensure its continued effectiveness from time to time. During the Relevant Period, the Board and the Nomination Committee had reviewed the implementation and confirmed its still effectiveness.

The Diversity Policy was consistently implemented except for the gender diversity. During the Relevant Period, the Company maintained an effective Board comprising members of different professional background and industry experience. However, as at the date of this annual report, the Board consists of all male Directors, the Company is planning to appoint a female Director no later than 31 December 2024 in order to enhance the gender diversity of the Board.

As at 31 December 2023, the male to female ratio across all level of the Group is approximately 2:3. The Group continues to take steps to promote diversity at all levels of its workforce.

The Nomination Committee has also adopted a nomination policy (the "**Nomination Policy**") which sets out the selection criteria and procedure of appointment and re-appointment of Directors.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Procedure and Process for Nomination of Directors

The Nomination Committee will recommend to the Board for the appointment of a Director including an independent non-executive Director in accordance with the following selection criteria and nomination procedures:

Selection Criteria

The Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorships:

- (a) Diversity in the aspects, amongst others, of gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;
- (b) The number of directorships in other listed/public companies;
- (c) Commitment for responsibilities of the Board in respect of available time and relevant interest;
- (d) Qualifications, including accomplishment and experience in the relevant industries in which the Group's business is involved;
- (e) Experience in the Group's principal business and/or the industry in which the Group operates;
- (f) Independence;
- (g) Reputation for integrity; and
- (h) Potential contributions that the individual can bring to the Board.

Nomination Procedures

The Nomination Committee will recommend to the Board for the appointment of a Director in accordance with the following procedures and process:

- i. The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents, and may seek independent professional advice to access a wider range of potential candidates.
- ii. The secretary of the Nomination Committee shall invite nomination of candidates from the Board members (if any) for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by the Board.
- iii. Upon considering a candidate suitable for the directorship, the Nomination Committee will hold a meeting and/or by way of written resolutions to, if thought fit, approve the recommendation to the Board for appointment.
- iv. The Nomination Committee will provide the relevant information of the selected candidate to the Remuneration Committee for consideration of the remuneration package of such selected candidate.

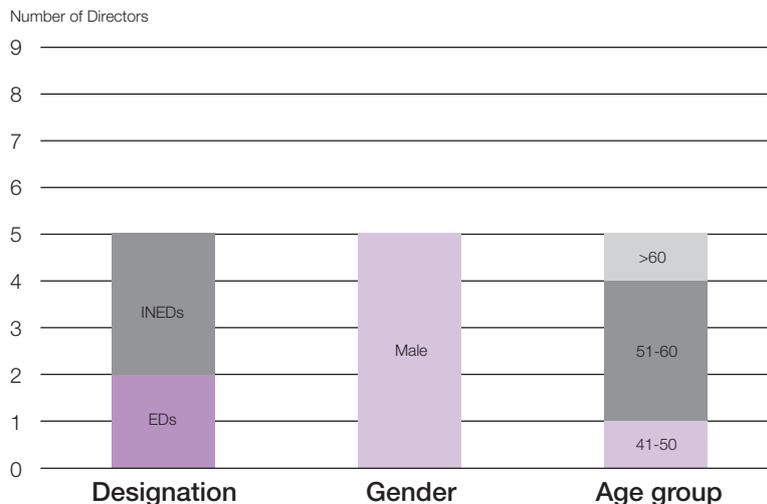
- v. The Nomination Committee will thereafter make the recommendation to the Board in relation to the proposed appointment, and the Remuneration Committee will make the recommendation to the Board on the policy and structure for the remuneration.
- vi. All appointment of Directors will be confirmed by the filing of the consent to act as Director of the relevant Director (or any other similar filings requiring the relevant Director to acknowledge or accept the appointment as Director, as the case may be) to be filed with the relevant regulatory authorities, if required.
- vii. For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.
- viii. The Nomination Committee and/or the Board should make recommendation to the Shareholders in respect of the proposed election of Director at the general meeting.

The Nomination Committee comprised a total of three members, being the three independent non-executive Directors, namely Mr. Chan Cheong Tat, Mr. Ho Chi Wai and Mr. Chu Kin Wang, Peleus. The chairman of the Nomination Committee is Mr. Ho Chi Wai.

During the Relevant Period, the Nomination Committee held one meeting for, *inter alia*, considering the retirement and re-election of the Directors at the AGM, assessing the independence of independent non-executive Directors and to assess, review and make recommendations on the structure, size and composition of the Board.

Details of the attendance records of each committee member at the Nomination Committee meeting are set out under the subheading “Practices and Conduct of Meetings” below.

The following graph provides an analysis on the composition of the Board as at the date of this report:



Remarks:

EDs – Executive Directors

INEDs – Independent Non-executive Directors

REMUNERATION COMMITTEE

The Company established the remuneration committee (the “**Remuneration Committee**”) on 23 June 2018 with specific written terms of reference in compliance with the CG Code. The terms of reference setting out the Remuneration Committee’s authority, duties and responsibilities are available on both the Stock Exchange’s website and the Company’s website. The primary duties of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of the Group; review performance-based remuneration; make recommendations to the Board on the remuneration packages of the Directors and senior management of the Group; ensure none of the Directors or any of their associates determine their own remuneration; and to review and/or approve the matters relating to the share option scheme of the Company. The Remuneration Committee is also responsible for the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee has adopted the model as described in the code provision E.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including salaries, bonuses, pension rights, compensation payments and benefits in kind. The Remuneration Committee also reviews and approves the management’s remuneration proposals with reference to the Board’s corporate goals and objectives. The Remuneration Committee is provided with sufficient resources to perform its duties.

The Remuneration Committee comprised a total of three members, being the three independent non-executive Directors, namely Mr. Chan Cheong Tat, Mr. Ho Chi Wai and Mr. Chu Kin Wang, Peleus. The chairman of the Remuneration Committee is Mr. Chu Kin Wang, Peleus.

During the Relevant Period, the remuneration of Directors was determined by their experience, responsibility, workload and the time devoted to the Group. Executive Directors and employees also participate in bonus arrangements determined in accordance with the performance of the Group and the individual’s performance.

During the Relevant Period, the Remuneration Committee held one meeting for, *inter alia*, reviewing the remuneration policy and the share option scheme of the Company, the Directors’ fee of the independent non-executive Directors and remuneration packages of the executive Directors.

Details of the attendance records of each committee member at the Remuneration Committee meeting are set out under the subheading “Practices and Conduct of Meetings” below.

AUDIT COMMITTEE

The Company established the audit committee (the “**Audit Committee**”) on 23 June 2018 with specific written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules and the CG Code. The terms of reference setting out the Audit Committee’s authority, duties and responsibilities are available on both the Stock Exchange’s website and the Company’s website. The primary duties of the Audit Committee are mainly to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor; develop and implement policy on engaging the external auditor to supply non-audit services; oversee the integrity of financial information of the Company and its disclosure; review the accounting principles and practices adopted by the Group; review financial statements and material advice in respect of financial reporting; and review the effectiveness of the risk management and internal control system of the Company. The Audit Committee shall consider whether, in order to ensure continuing auditor independence, there should be a regular rotation of the independent registered public accounting firm. The Audit Committee is provided with sufficient resources to discharge its duties.

The Audit Committee comprised a total of three members, being the three independent non-executive Directors, namely Mr. Chan Cheong Tat, Mr. Ho Chi Wai and Mr. Chu Kin Wang, Peleus. The chairman of the Audit Committee is Mr. Chan Cheong Tat. None of the members of the Audit Committee is a former partner of the Company's and its subsidiary's existing external auditors.

During the Relevant Period, the Audit Committee held four meetings for, *inter alia*, (1) discussing with the external auditor to assess the impact on applying the new accounting standards; (2) reviewing the audited consolidated financial statements for the year ended 31 December 2022, the unaudited consolidated financial statements for the nine months ended 30 September 2023, six months ended 30 June 2023 and three months ended 31 March 2023; (3) reviewing the effectiveness of the risk management and internal control system in accordance with code provision D.2.1 of the CG Code; (4) improving current standard of operational control procedures; (5) considering the appointment and re-appointment of the external auditor of the Company, reviewing its independence and qualification, and reviewing and approving the audit scope and fees proposed by the external auditor; and (6) reviewing the management letters and reports issued by the external auditor of the Company.

Details of the attendance records of each committee member at the Audit Committee meeting are set out under the subheading "Practices and Conduct of Meetings" below.

PRACTICES AND CONDUCT OF MEETINGS

Schedules and agendas for regular Board meetings are normally agreed with the Directors in advance in order to facilitate them to attend. Notice of at least 14 days is given for a regular Board meeting. For other Board meetings, reasonable notice is given. Board papers together with appropriate, complete and reliable information are circulated to all Directors not less than 3 days before the date of the Board meetings to enable them to make informed decisions.

All Directors are supplied in a timely manner with all relevant documentation and financial information. The company secretary is responsible to keep minutes of all Board meetings. Draft minutes are normally circulated to all Directors for comments within a reasonable time after each meeting and the final version is open for their inspection.

The attendance records of each Director at the Board and the above committee meetings and the general meeting of the Company held during the Relevant Period are as follows:

Name of Director	Attendance/Number of Meetings				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	General Meeting
Executive Directors					
Mr. Wong Wai Chit	10/10	N/A	N/A	N/A	1/1
Mr. Wong Man Chit	10/10	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Chan Cheong Tat	10/10	4/4	1/1	1/1	1/1
Mr. Ho Chi Wai	10/10	4/4	1/1	1/1	1/1
Mr. Chu Kin Wang, Peleus	10/10	4/4	1/1	1/1	1/1

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board was satisfied with the attendance of the Directors as they have committed sufficient time and attention to the affairs of the Company. Each Director shall disclose to the Company at the time of the materiality of interest and be required to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CORPORATE GOVERNANCE FUNCTIONS

According to code provision A.2.1 of the CG Code, the Board is responsible for performing the duties relating to corporate governance functions. The Board has the following responsibilities in performing the corporate governance duties of the Company as follows: (i) developing and reviewing the Group's policies and practices on corporate governance and make recommendations; (ii) reviewing and monitoring the training and continuous professional development of the Directors and senior management of the Group; (iii) reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) reviewing the Group's compliance with the CG Code and disclose in the corporate governance report.

AUDITOR'S REMUNERATION

During the year ended 31 December 2023, the fees of the external auditor in respect of audit and non-audit services provided to the Group were as follows:

Service rendered	Fee amount <i>HK\$'000</i>
Audit Service	
– BDO Limited	955
– BDO network firm	145
	<hr/>
	1,100
Non-audit services	233
	<hr/>
	1,333

FINANCIAL REPORTING

The Board has acknowledged their responsibility for the preparation of the consolidated financial statements for the Relevant Period, which give a true and fair view of the state of affairs of the Group in accordance with the statutory requirements and accounting standards and other financial disclosure requirement under the GEM Listing Rules. The management of the Group has provided sufficient explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group for the Board's approval. The statement by auditor about their reporting responsibilities is set out in the independent auditor's report on the consolidated financial statements.

REMUNERATION POLICY FOR DIRECTORS AND SENIOR MANAGEMENT

The remuneration policy of the Group is to ensure the fairness and competitiveness of total remuneration. The emoluments of executive Directors are determined based on the skills, knowledge, individual performance as well as contributions, the scope of responsibility and accountability of such Directors, taking into consideration the Company's performance and prevailing market conditions. The remuneration of the executive Directors and senior management of the Group is subject to review and approval by the Remuneration Committee. The remuneration policy of independent non-executive Directors is to ensure that they are adequately compensated for their efforts and time dedicated to the Company's affairs. Their emoluments are determined with reference to their skills, experience, knowledge, duties and market trends. The remuneration of the independent non-executive Directors is subject to approval by the Board.

Particulars of the Directors' remuneration for the year ended 31 December 2023 are set out in Note 12 to the consolidated financial statements.

Pursuant to code provision E.1.5 of the CG Code, the remuneration of the members of the senior management of the Group (other than the Directors) whose particulars are contained in the section headed "Biography of Directors and Senior Management" of this annual report for the Relevant Period by band is set out below.

Remuneration band	Number of individual
Over HK\$1,000,000	1

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the required standard of dealings (the "Required Standard of Dealings") set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors. The Company has also established written guidelines on no less exacting terms than the Required Standard of Dealings for relevant employees in respect of their dealings in the Company's securities. Having made specific enquiries of all the Directors, each of them have confirmed that they have complied with the Required Standard of Dealings for the Relevant Period. No incident of non-compliance was noted by the Company for the Relevant Period either.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Each newly appointed Director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under relevant statutes, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the GEM Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a Director.

CORPORATE GOVERNANCE REPORT (CONTINUED)

According to the information provided by the Directors, a summary of training received by the Directors during the Relevant Period is as follows:

Name of Directors	Reading materials/ Attending seminars
<i>Executive Directors</i>	
Mr. Wong Wai Chit (<i>Chairman</i>)	✓
Mr. Wong Man Chit (<i>Chief Executive Officer</i>)	✓
<i>Independent Non-Executive Directors</i>	
Mr. Chan Cheong Tat	✓
Mr. Ho Chi Wai	✓
Mr. Chu Kin Wang, Peleus	✓

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for reviewing the adequacy and effectiveness of the Group's internal control and risk management systems. Such internal control and risk management 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 had conducted a review on the effectiveness of the Group's internal control and risk management systems once during the year ended 31 December 2023 which covered financial, operational, compliance procedural and risk management functions and had considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function, as well as those relating to the Company's environmental, social and governance ("ESG") performance and reporting. The Company's internal control includes ESG risk management. ESG risks may have significant impacts on a company's financial performance, reputation, and ability to operate. Our risk management and internal control processes therefore take into account potential impacts of ESG factors on the Group's operations, reputation, and financial performance. The Board had also reviewed the changes in the nature and extent of significant risks since the last annual review, the ability of the Group to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of risks and the internal control system, the significant control failings or weaknesses that have been identified during the year and the extent to which they have resulted in a material impact on the Group's financial performance or condition, the extent and frequency of communication of monitoring results to the Board which enables it to assess control of the Company and the effectiveness of risk management, as well as the effectiveness of the Company's processes for compliance with the GEM Listing Rules. In light of the size and scale of the Group's business, the Group does not have an internal audit function as the Board has reviewed the adequacy and effectiveness of the internal control system of the Group and is currently of the view that there is no immediate need to set up an internal audit function within the Group. The Board will review and consider to establish such department as and when it thinks necessary.

The Group has engaged an external professional consultant, to conduct independent internal control review for the Relevant Period and the review has been completed as at the date of this annual report.

The Group believes that good corporate governance practices are very important for maintaining and promoting investor confidence and for the sustainable growth of the Group. The Group has therefore made continued efforts to uplift its quality of corporate governance. It has established an effective system of internal controls and adopted a series of measures to ensure its safety and effectiveness. As a result, the Group is able to safeguard its assets and protect the interests of the Shareholders.

The Board is of the view that the systems of internal control and risk management are effective and there are no irregularities, improprieties, fraud or other deficiencies that suggest material deficiency in the effectiveness of the Group's internal control system.

Internal Control System

The Company has maintained an internal control system and its implementation has been considered effective by the Audit Committee and the Board. Meanwhile, the Group strives for continual improvement through efforts to enhance controls, ongoing employee training and development, talent retention, and other measures. The Group follows a disciplined and balanced compensation framework with strong internal governance and independent Board oversight. The impact of risk and control issues are carefully considered in the Group's performance evaluation and incentive compensation processes.

In order to enhance the Group's system of handling and dissemination of inside information, the Group maintains a framework for the handling and dissemination of inside information and the disclosure policy of the framework sets out the procedures and internal controls to ensure inside information remains confidential until such information is appropriately disclosed and the announcement of such information is made in a timely manner in compliance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") and the GEM Listing Rules.

In addition, the Group had, from time to time, reminded the management of the requirements of the GEM Listing Rules and guidelines on the inside information issued by the Stock Exchange and the Securities and Futures Commission. The blackout notice period and the Model Code for Securities Transactions by Directors of Listed Issuers set out in Rules 5.46 to 5.67 of the GEM Listing Rules are sent to the Directors regularly such that they are reminded to preserve the confidentiality of inside information. Inside information (if any) is only disseminated to specified persons on a need-to-know basis.

ANTI-CORRUPTION

The Group takes anti-corruption responsibilities very seriously. The Group's anti-corruption policies set out the standards of conduct to which all employees are required to adhere to. The Group has designated email for relevant stakeholders to report, in confidence, any illegal or fraudulent behaviours to the Board. Employees making such reports are assured of protection. The designated email is available on the Company's website at <http://www.hyfusingroup.com>. The Group has also established a regularly review on its business practices and anti-corruption measures and guidelines, as well as reported improprieties investigation.

The Group establishes an effective whistle-blowing policy for reporting suspected irregularities, fraud and corruption via specified channels for employees and the relevant third parties (e.g. customers, suppliers, creditors, debtors). All reported matters will be investigated independently and, in the meantime, all information received from a whistleblower and its identity will be kept confidential. The Group also continues to improve its internal control and monitoring system. If any irregularities are identified, the Group takes immediate action and adopts a zero-tolerance approach to corruption.

The Board and the Audit Committee will regularly review the whistle-blowing policy and mechanism to improve its effectiveness.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTMENT COMMUNITY

The Board has established shareholders' communication policy and is dedicated to maintaining an on-going dialogue with the Shareholders and the investment community. The policy is subject to review regularly to ensure its effectiveness. The shareholders' communication policy setting out the principles of the Company in relation to Shareholders' communications, with the objectives of ensuring a transparent and timely communication with Shareholders. It aims to ensure the Shareholders and the investment community are provided with ready and timely access to all publicly available information about the Company such as circulars and Company's financial reports (quarterly, interim and annual reports) so as to enable the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and investment community to engage actively with the Company. We welcome the Shareholders and the investment community to visit the Company's website at <http://www.hyfusingroup.com> to obtain up-to-date information regarding the Company.

Shareholders are encouraged to attend general meetings of the Company for the Board to communicate and exchange opinion directly with the shareholders. Board members, in particular, either the chairman of Board committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer Shareholders' questions. The detailed procedures of conducting a poll are explained to Shareholders at the commencement of the general meetings, to ensure that Shareholders are familiar with such procedures.

To respond and get feedback from Shareholders, the Company provides Shareholders with various channels to express their views on matters affecting the Company including (i) Hong Kong branch share registrar and transfer office of the Company, Union Registrars Limited, for enquiries on shareholdings; (ii) company secretary of the Company for direct questions, request for publicly available information and provide comments and suggestions; and (iii) deliver opinion by email to the Company.

During the Relevant Period, the Board has reviewed the implementation and confirmed the effectiveness of the shareholders' communication policy including procedures at the general meetings, the handling of queries (if any) and the various channels of communication and engagement in place, and considered that the shareholders' communication policy has been properly implemented during the Relevant Period under review and is effective.

CONSTITUTIONAL DOCUMENTS

There are no significant changes in the Company's constitutional documents for the Relevant Period.

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting of the Company and putting forward Proposals at General Meetings

Shareholders may put forward proposals for consideration at a general meeting of our Company according to the Articles of Association. Any one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company and carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting (“**EGM**”) to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting forward Enquiries to the Board

Enquiries by the Shareholders to be put to the Board can be sent in writing to the Directors or company secretary of the Company at the principal place of business in Hong Kong. The Shareholders may make a request for information about the Company by sending an e-mail to info@hyfusingroup.com.

For share registration related matters, such as share transfer and registration, change of name or address, loss of share certificates or dividend warrants, the Company's registered shareholders can contact the Company's branch share registrar and transfer office in Hong Kong, Union Registrars Limited.

COMPANY SECRETARY

The Company has engaged Ms. Leung Shui Bing, manager of the Listing Services Department of TMF Hong Kong Limited, as its company secretary since 1 December 2021. Ms. Leung's biographical details is set out under the section headed “Biography of Directors and Senior Management” of this annual report. Ms. Leung's primary contact person at the Company is Mr. Choi Ka Shing, the chief financial officer of the Group. Ms. Leung reports to the chairman and/or the chief executive officer of the Company.

During the Relevant Period, Ms. Leung had undertaken no less than 15 hours of relevant professional training in compliance with Rule 5.15 of the GEM Listing Rules.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Wong Wai Chit

Mr. Wong Wai Chit (黃偉捷) (Mr. Vincent Wong), aged 56, is our chairman and executive Director. Mr. Vincent Wong is one of the controlling shareholders (as defined in the GEM Listing Rules) of the Company and he joined our Group as the director of Fleming International Limited, a wholly-owned subsidiary of the Company, on 20 July 1993. He was appointed as Director on 5 July 2017 and was redesignated as executive Director on 23 June 2018. Mr. Vincent Wong is responsible for formulating our Group's overall strategic plans and overseeing its financial control, business development and policy setting.

Mr. Vincent Wong is one of the founding members of our Group and has over 22 years of candle manufacturing experience. He was educated in secondary schools in Hong Kong. Mr. Vincent Wong is the younger brother of Mr. Andrew Wong.

For the interests of Mr. Vincent Wong in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO as at 31 December 2023, please refer to the section headed "Directors' and Chief Executives' Interest in Shares, Underlying Shares and Debentures" of this annual report for details.

Mr. Wong Man Chit

Mr. Wong Man Chit (黃聞捷) (Mr. Andrew Wong), aged 58, is our chief executive officer and executive Director. Mr. Andrew Wong is one of the controlling shareholders (as defined in the GEM Listing Rules) of the Company and he joined our Group as the director of Fleming International Limited, a wholly-owned subsidiary of the Company, on 20 July 1993. He was appointed as Director on 5 July 2017 and was redesignated as executive Director on 23 June 2018. Mr. Andrew Wong is responsible for overseeing our Group's business operations, its overall sales and marketing strategies and its production and product development.

Mr. Andrew Wong is one of the founding members of our Group and has over 22 years of candle manufacturing experience. He was educated in secondary schools in Hong Kong. Mr. Andrew Wong is the elder brother of Mr. Vincent Wong.

For the interests of Mr. Andrew Wong in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO as at 31 December 2023, please refer to the section headed "Directors' and Chief Executives' Interest in Shares, Underlying Shares and Debentures" of this annual report for details.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Cheong Tat

Mr. Chan Cheong Tat (陳昌達), aged 74, was appointed as our independent non-executive Director on 23 June 2018 and is the chairman of the Audit Committee and a member of Remuneration Committee and Nomination Committee. Mr. Chan provides independent advice to our Board on management and provides independent judgment on the issue of strategy, performance, resources and standard of conduct of our Company, despite that he is not participating in the day-to-day management of our business operation. Mr. Chan is appointed for a term of 3 years from 19 July 2021 and he is subject to retirement by rotation and re-election in accordance with the Articles.

Mr. Chan is the founding shareholder and sole director of C T Tax Consultants Limited since August 2006. Prior to that, Mr. Chan had worked in the Inland Revenue Department for over 32 years. He joined the Hong Kong Government as assistant assessor in November 1972, and was promoted to assessor in January 1976, to senior assessor in May 1985, to chief assessor in June 1994, to assistant commissioner of the Inland Revenue Department in September 2003, and commenced the pre-retirement leave in April 2005.

Mr. Chan obtained a Master degree in Financial Management from Central Queensland University of Australia in 1995. He was admitted as, an associate of the Institute of Chartered Secretaries and Administrators in March 1974, a fellow of the Association of Certified Accountants in November 1983, a fellow of the Hong Kong Institute of Certified Public Accountants in March 1986, a fellow of the Australian Society of Certified Practising Accountants in June 1990, and an associate of the Hong Kong Institute of Company Secretaries in August 1994.

Mr. Chan has been appointed as, from March 2006 to June 2020, an independent non-executive director of Guangdong Tannery Limited (now known as Namyue Holdings Limited), the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1058), since December 2014, an independent non-executive director of Medicskin Holdings Limited, the shares of which are listed on GEM of the Stock Exchange (Stock code: 8307), since September 2018, an independent non-executive director of Chong Fai Jewellery Group Holdings Company Limited, the shares of which are listed on GEM of the Stock Exchange (Stock code: 8537), since September 2019, an independent non-executive director of Accel Group Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1283), since February 2020, an independent non-executive director of Ye Xing Group Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1941), from January 2015 to December 2016, an independent non-executive director of Man Sang International Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 938), since June 2020, an independent non-executive director of Wasion Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 3393), from October 2006 to December 2011, an independent non-executive director of Nobel Jewelry Holdings Limited (now known as Central Development Holdings Limited), the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 475).

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Chu Kin Wang, Peleus

Mr. Chu Kin Wang, Peleus (朱健宏), aged 59, was appointed as our independent non-executive Director on 1 December 2021 and is the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee. Mr. Chu provides independent advice to our Board on management and provides independent judgment on the issue of strategy, performance, resources and standard of conduct of our Company, despite that he is not participating in the day-to-day management of our business operation. Mr. Chu is appointed for a term at 3 years from 1 December 2021 and he is subject to retirement by rotation and re-election in accordance with the Articles.

Mr. Chu has over 32 years of experience in corporate finance, auditing, accounting and taxation. He is an independent non-executive director of China First Capital Group Limited (Stock code: 1269), Huayu Expressway Group Limited (Stock code: 1823), Tianli Holdings Group Limited (Stock code: 117), Mingfa Group (International) Company Limited (Stock code: 846) and Silk Road Logistics Holdings Limited (Stock code: 988), all of which are listed on the Main Board of the Stock Exchange. Mr. Chu is also an independent non-executive director of Madison Holdings Group Limited (Stock code: 8057), which is listed on the GEM of the Stock Exchange.

Mr. Chu was an executive director of Momentum Financial Holdings Limited (Stock code: 1152) from August 2021 to March 2022, an independent non-executive director of Telecom Service One Holdings Limited (Stock code: 3997) from April 2013 to December 2017, Xinming China Holdings Limited (Stock code: 2699) from April 2021 to August 2021, and Peking University Resources (Holdings) Company Limited (Stock code: 618) from October 2021 to October 2022, and a non-executive director of Perfect Group International Holdings Limited (Stock code: 3326) from August 2015 to March 2017. He was also an independent non-executive director of China Huishan Dairy Holdings Company Limited (Stock code: 6863) from June 2017 to December 2017, PT International Development Corporation Limited (Stock code: 372) from March 2017 to September 2017, Flyke International Holdings Limited (Stock code: 1998) from February 2010 to December 2020 and a deputy chairman and executive director of Chinese People Holdings Company Limited (Stock code: 681) from December 2008 to October 2020. All of the above companies are listed on the Main Board of the Stock Exchange. He was also an independent non-executive director of SuperRobotics Holdings Limited (Stock code: 8176) from March 2012 to November 2021, which is listed on the GEM of the Stock Exchange.

Mr. Chu obtained a master's degree in Business Administration from The University of Hong Kong in December 1998. Mr. Chu is a fellow of the Hong Kong Institute of Certified Public Accountants and is also an associate member of both The Chartered Governance Institute in the United Kingdom and The Hong Kong Chartered Governance Institute.

Mr. Ho Chi Wai

Mr. Ho Chi Wai (何志威), aged 49, was appointed as our independent non-executive Director on 23 June 2018 and is the chairman of the Nomination Committee and a member of the Audit Committee and Remuneration Committee. Mr. Ho provides independent advice to our Board on management and provides independent judgment on the issue of strategy, performance, resources and standard of conduct of our Company, despite that he is not participating in the day-to-day management of our business operation. Mr. Ho is appointed for a term of 3 years from 19 July 2021 and he is subject to retirement by rotation and re-election in accordance with the Articles.

Mr. Ho has over 27 years of experience in audit assurance and business consulting. He is currently a partner of SRF Partners & Co., Certified Public Accountants. Prior to starting his own practice in 2012, Mr. Ho had been appointed, among others, from May 2010 to November 2011, the principal, from May 2005 to May 2010, the audit manager and from May 2000 to May 2005, the audit senior of an accounting firm, from May 1999 to May 2000, the audit senior, and from June 1997 to April 1999, an audit staff of a local accounting firm.

Mr. Ho obtained a Bachelor of Business Administration degree from Lingnan University (formerly known as Lingnan College) in 1997 and a Master of Finance degree from Jinan University in 2012. He is currently a practicing certified public accountant of the Hong Kong Institute of Certified Public Accountants, a chartered tax adviser at the Taxation Institute of Hong Kong, a fellow member of the Taxation Institute of Hong Kong, a fellow member of the Association of International Accountants, a fellow member of Association of Chartered Certified Accountants and a member of the Hong Kong Independent Non-Executive Association.

Mr. Ho has been appointed as, since March 2014, an independent non-executive director of Wai Chi Holdings Company Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1305), from June 2012 to October 2013, an independent non-executive director of Ming Kei Holdings Limited (now known as Capital Finance Holdings Limited), the shares of which are listed on GEM of the Stock Exchange (Stock code: 8239), and since May 2018, an independent non-executive director of Affluent Foundation Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (Stock code: 1757).

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

SENIOR MANAGEMENT

Mr. Choi Ka Shing

Mr. Choi Ka Shing (蔡嘉成) is the chief financial officer of our Group. Mr. Choi joined our Group in November 2016 and is responsible for the overall finance and accounting matters of our Group.

Mr. Choi has over 12 years of experience in auditing, accounting and financial management. Prior to joining our Group, Mr. Choi had been appointed, among others, the financial controller of Architectural Precast GRC (HK) Limited from June 2016 to October 2016, the audit supervisor in FTW & Partners CPA Limited from March 2009 to May 2016.

Mr. Choi obtained a Bachelor of Accountancy in University of South Australia in 2008. Since December 2015, Mr. Choi was admitted to a full membership of CPA Australia.

COMPANY SECRETARY

Ms. Leung Shui Bing

Ms. Leung Shui Bing (梁瑞冰) was appointed as the company secretary of the Company on 1 December 2021. Ms. Leung is a manager of the Listing Services Department of TMF Hong Kong Limited (a global corporate services provider), and has over 19 years of experience in the company secretarial field. Ms. Leung holds a bachelor's degree in Business and Management Studies (Accounting and Finance) from the University of Bradford in the United Kingdom and a master's degree in Corporate Governance from The Open University of Hong Kong (now known as Hong Kong Metropolitan University) and an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 July 2017. The Company completed the group reorganisation (the “**Reorganisation**”) on 13 September 2017 in preparation for the Listing, pursuant to which the Company became the holding company of the companies now comprising our Group. Details of the Reorganisation are set out in the section headed “History, Development and Reorganisation” in the Prospectus. The shares were listed on the GEM of the Stock Exchange on Listing Date by way of share offer.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 36 to the consolidated financial statements. The principal activities of the Group is the manufacturing and sale of candle products with headquarters in Hong Kong and operation in Vietnam.

BUSINESS REVIEW

The business review of the Group during the reporting period are set out in the section headed “Chairman’s Statement and Management Discussion and Analysis” on pages 4 to 12 of this annual report. Principal risks and uncertainties that the Group may be facing are set out on page 10 of this annual report and the Corporate Governance Report is set out on pages 13 to 27 of this annual report. The discussion form part of this report.

RESULTS AND APPROPRIATIONS

The Group’s profit for the year ended 31 December 2023 and the financial position of the Group at that date are set out in the consolidated financial statements on pages 51 to 52.

SEGMENT INFORMATION

An analysis of the Group’s revenue and contribution to profit or loss for the year by its principal activities is set out in Note 6 to the consolidated financial statements.

DIRECTORS' REPORT (CONTINUED)

DIVIDEND POLICY

The Group adopted a dividend policy on 28 December 2018. A summary of this policy is disclosed below.

The Board considers sustainable returns to the Shareholders whilst retaining adequate reserves for the Group's future development to be an objective. Under the policy on payment of dividends adopted by the Company, dividends may be recommended, declared and paid to the Shareholders from time to time. In summary, the declaration of dividends and the dividend amount shall be determined at the sole and absolute discretion of the Board taking into account the following factors:

- the Group's current and future operations and earnings;
- the Group's liquidity position and future commitments at the time of declaration of dividend;
- any contractual restrictions on payment of dividends by the Company to the Shareholders or by the Company's subsidiaries to the Company;
- the retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Group's working capital requirements, capital expenditure requirements and future expansion plans;
- the general market conditions; and
- any other factors that the Board deems appropriate.

The Board does not recommend the payment of any final dividend for the year as set out in Note 14 to the consolidated financial statements.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last financial years is set out on page 126 of this annual report.

SHARE CAPITAL

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

RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 53 of this annual report.

DISTRIBUTABLE RESERVES

At 31 December 2023, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the Companies Act of the Cayman Islands, was approximately HK\$11.4 million.

USE OF PROCEEDS

The net proceeds from the issue of new shares of the Company, after deduction of the professional fees, underwriting commissions and other fees payable by the Company in connection with the Listing, were estimated to be approximately HK\$44.5 million. Up to the date of this annual report, approximately HK\$38.3 million has been utilised. Balance of net proceeds has been approximately HK\$6.2 million. Details are set out in the section headed "Use of Proceeds" on pages 11 to 12 of this annual report.

PLANT AND EQUIPMENT

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

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

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing Shareholders.

DEBENTURES

The Company did not issue any debentures during the year ended 31 December 2023.

DONATIONS

Donations made by the Group during the year amounted to HK\$271,000 (2022: HK\$212,000).

DIRECTORS' REPORT (CONTINUED)

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for approximately 86.9% of the turnover of the Group for the year ended 31 December 2023 (2022: approximately 81.9%).

The five largest suppliers of the Group accounted for approximately 51.4% of the total purchases of the Group for the year ended 31 December 2023 (2022: approximately 54.1%).

During the year ended 31 December 2023, the aggregate sales attributable to the Group's largest customer and the aggregate purchases attributable to the Group's largest supplier were approximately 62.9% (2022: approximately 56.0%) and approximately 14.7% (2022: approximately 13.3%) of the Group's sales and purchases respectively.

None of the Directors, their close associates or any Shareholders (which to the knowledge of the Directors, owns more than 5% of the number of issued shares) had a beneficial interest in the five largest suppliers or customers of the Group for the year ended 31 December 2023.

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 13 to 27 of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to enhancing environmental protection to minimise the impact of its activities on the environment. It is the policy of the Group to promote clean operation and strives to making the most efficient use of resources in its operations, and minimising wastes and emission.

A separate ESG report is expected to be published on the Stock Exchange's website and the Company's website at the same time as the publication of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2023, the Group's operations are mainly carried out by the subsidiaries of the Company in Hong Kong and Vietnam. The Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. There was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIPS WITH EMPLOYEES AND CUSTOMERS

The Group recognises employees as one of the valuable assets of the Group and the Group strictly complies with the labour laws and regulations in applicable jurisdictions and regularly reviews the existing employee benefits for improvement. Apart from the reasonable remuneration packages, the Group also offers good welfare benefits and continuous professional training. The Group provides good quality services to the customers and maintains a good relationship with them. Without good relationship with customers, the success of the Group's operation would be at risk.

DIRECTORS

The Directors during the year ended 31 December 2023 and up to the date of this report are as follow:

EXECUTIVE DIRECTORS

Mr. Wong Wai Chit (*Chairman*)

Mr. Wong Man Chit (*Chief Executive Officer*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Cheong Tat

Mr. Ho Chi Wai

Mr. Chu Kin Wang, Peleus

Pursuant to the Articles, at each AGM 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 shall be subject to retirement by rotation at least once every three years. Such retiring Directors shall be eligible for re-election at the AGM. Accordingly, Mr. Ho Chi Wai and Mr. Chu Kin Wang, Peleus will retire and being eligible, offer themselves for re-election at the forthcoming AGM.

The Company has received an annual confirmation from each independent non-executive Director of their independence pursuant to the requirements of the GEM Listing Rules. The Company considers all independent non-executive Directors to be independent in light of the independence guidelines set out in the GEM Listing Rules.

The biographic details of Directors are set out on pages 28 to 31 of this annual report.

UPDATE INFORMATION OF DIRECTORS

The change in information of Director is set out below pursuant to Rule 17.50A of the GEM Listing Rules:

Mr. Chu Kin Wang, Peleus has been appointed as an independent non-executive director of Silk Road Logistic Holdings Limited (stock code: 988), which is listed on the Main Board of the Stock Exchange, with effect from 11 September 2023.

Save as mentioned above, there is no change of information of each Director that is required to be disclosed under Rule 17.50A of the GEM Listing Rules.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors entered into a service agreement with the Company for a term of three years commencing from 19 July 2021, which shall continue thereafter unless and until terminated by not less than three months' notice in writing served by either party on the other. Mr. Chan Cheong Tat, Mr. Ho Chi Wai and Mr. Chu Kin Wang, Peleus as the independent non-executive Directors entered into a letter of appointment with the Company for a term of three years commencing from 19 July 2021, 19 July 2021 and 1 December 2021 respectively, all of which shall continue thereafter unless and until terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, none of the Directors, including those to be re-elected at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

EMOLUMENT POLICY

The Remuneration Committee is responsible for reviewing emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance and corporate market practices.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five individuals with highest emoluments are set out in Note 12 to the consolidated financial statements.

DIRECTORS' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in the Prospectus and elsewhere in the annual report, there were no transactions, arrangements or contracts of significance to which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at any time during the year.

CONTROLLING SHAREHOLDERS' INTERESTS

Save as disclosed in this annual report, there were no contracts of significance between the Company or any of its subsidiaries and any controlling shareholder of the Company or any of its subsidiaries or any contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder of the Company or any of its subsidiaries.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, fellow subsidiaries or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme, no equity-linked agreements were entered into by the Company during the year ended 31 December 2023 or subsisted at the end of the year.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

There is no connected transactions or continuing connected transactions entered into by the Group during the year ended 31 December 2023. Details of material related party transactions are set out in Note 35 to the consolidated financial statements to this annual report. To the best knowledge of the Directors, none of related party transactions constitutes connected transactions that need to be disclosed under GEM Listing Rules.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules and the Company has complied with the disclosure requirements in the GEM Listing Rules.

PERMITTED INDEMNITY PROVISIONS

The Company's Articles provide that every Directors shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur or about the execution of the duties of his/her office or otherwise in relation thereto.

The Company has maintained appropriate Directors' and officers' liability insurance and such permitted indemnity provision for the benefit of the Directors currently in force.

TAX RELIEF OR EXEMPTION OF HOLDERS OF LISTED SECURITIES

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

NON-COMPETITION UNDERTAKING

The controlling shareholders of the Company gave a non-competition undertaking in favour of the Company and confirm that they and their associates have not breached the terms of the undertaking contained in the deed of non-competition during the year ended 31 December 2023. Details of the non-competition undertaking are set out in section headed "Deed of Non-competition" in the Prospectus. All independent non-executive Directors have reviewed on an annual basis the compliance with the respective non-competition undertakings by the controlling shareholders of the Company. In view of this conclusion, the controlling shareholders of the Company have complied with all the undertakings under the deed of non-competition in favour of the Company during the year ended 31 December 2023.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2023, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO held by the Directors and chief executives of the Company (the “**Chief Executives**”) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

Long position in ordinary Shares

Name of Directors	Nature of interests	Number of Shares held	Approximate % of the total number of Shares in issue
Mr. Wong Wai Chit <i>(Notes 1 & 2)</i>	Interest in controlled corporation	643,500,000	58.5%
Mr. Wong Man Chit <i>(Notes 1 & 3)</i>	Interest in controlled corporation	643,500,000	58.5%

Notes:

1. These 643,500,000 Shares are held by AVW International Limited (“**AVW**”) is beneficially owned as to 50% by Mr. Wong Wai Chit and 50% by Mr. Wong Man Chit. Each of Mr. Wong Wai Chit and Mr. Wong Man Chit is deemed to be interested in the same number of Shares in which AVW is interested under the SFO.
2. Ms. long Man Lai is the spouse of Mr. Wong Wai Chit. Ms. long Man Lai is deemed to be interested in the same number of Shares in which Mr. Wong Wai Chit is interested by virtue of the SFO.
3. Ms. Tse Sheung is the spouse of Mr. Wong Man Chit. Ms. Tse Sheung is deemed to be interested in the same number of Shares in which Mr. Wong Man Chit is interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2023, none of the Directors or Chief Executives 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 would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARES AND UNDERLYING SHARES

So far as the Directors and the Chief Executives are aware, as at 31 December 2023, other than the Directors and the Chief Executives, the following persons will have or be deemed or taken to have an interest and/or short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under section 336 of the SFO, or who will be, directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

Long position in ordinary Shares

Name of Shareholders	Nature of interest	Number of Shares held	Approximate % of the total number of Shares in issue
AVW ^(Note 1)	Beneficial owner	643,500,000	58.5%
Vibes Enterprises Company Limited ^(Note 2)	Beneficial owner	181,500,000	16.5%
Vibes Management Company Limited ^(Note 2)	Interest in controlled corporation	181,500,000	16.5%
Pioneer Unicorn Limited ^(Note 2)	Interest in controlled corporation	181,500,000	16.5%
Ms. Li Yin Ping ^(Note 2)	Interest in controlled corporation	181,500,000	16.5%
Ms. Zheng Xiaochun ^(Note 2)	Interest in controlled corporation	181,500,000	16.5%
Mr. Guan Le ^(Notes 2 & 3)	Interest of spouse	181,500,000	16.5%
Mr. Chan Sheung Chi ^(Notes 2 & 6)	Interest of spouse	181,500,000	16.5%
Ms. long Man Lai ^(Notes 1 & 4)	Interest of spouse	643,500,000	58.5%
Ms. Tse Sheung ^(Notes 1 & 5)	Interest of spouse	643,500,000	58.5%

DIRECTORS' REPORT (CONTINUED)

Notes:

1. AVW is beneficially owned as to 50% by Mr. Wong Wai Chit and 50% by Mr. Wong Man Chit, executive directors of the Company. Each of Mr. Wong Wai Chit and Mr. Wong Man Chit is deemed to be interested in the same number of Shares in which AVW is interested under the SFO.
2. Vibes Enterprises Company Limited ("**Vibes Enterprises**") is wholly owned by Vibes Management Company Limited ("**Vibes Management**"). Vibes Management Company Limited is wholly-owned by Pioneer Unicorn Limited ("**Pioneer Unicorn**"), which is owned as to 50% by Ms. Li Yin Ping and 50% by Ms. Zheng Xiaochun. As such, Ms. Li Yin Ping and Ms. Zheng Xiaochun together indirectly control all the Shares held by Vibes Enterprises. Under the SFO, each of Vibes Management, Pioneer Unicorn, Ms. Li Yin Ping and Ms. Zheng Xiaochun is deemed to be interested in the same number of Shares in which Vibes Enterprises is interested.
3. Mr. Guan Le is the spouse of Ms. Zheng Xiaochun. Mr. Guan Le is deemed to be interested in the same number of Shares in which Ms. Zheng Xiaochun is interested by virtue of the SFO.
4. Ms. long Man Lai is the spouse of Mr. Wong Wai Chit. Ms. long Man Lai is deemed to be interested in the same number of Shares in which Mr. Wong Wai Chit is interested by virtue of the SFO.
5. Ms. Tse Sheung is the spouse of Mr. Wong Man Chit. Ms. Tse Sheung is deemed to be interested in the same number of Shares in which Mr. Wong Man Chit is interested by virtue of the SFO.
6. Mr. Chan Sheung Chi is the spouse of Ms. Li Yin Ping. Mr. Chan Sheung Chi is deemed to be interested in the same number of Shares in which Ms. Li Yin Ping is interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2023, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person or corporation (other than the Directors and the Chief Executives) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

COMPLIANCE ADVISER'S INTERESTS

As at the date of this report, save and except for (i) the participation of TC Capital International Limited ("**TC Capital**") as the sponsor in relation to the Listing; and (ii) the compliance adviser's agreement entered into between the Company and TC Capital dated 25 September 2017, neither TC Capital nor its directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 23 June 2018 for the purpose to provide our Company with a flexible means of giving incentive and reward to employee, advisor, customer, service provider, agent, customer, partner or joint-venture partner of the Group (including a director of the Group) (the "**Eligible Participants**") for incentive or reward for their contribution to the Group.

Under the Share Option Scheme, the Board may make an offer to the Eligible Participants. The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group must not exceed 30% of the total number of Shares in issue from time to time.

Unless approved by the Shareholders at the general meeting, the total number of Shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Group to each Eligible Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options must not exceed 1% of the Shares in issue.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 110,000,000, representing 10% of the total number of Shares in issue on the Listing Date unless the Company seeks the approval of the Shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Group will not be counted for the purpose of calculating 10% limit. As at 1 January 2023, 31 December 2023 and the date of this annual report, respectively, the total number of Shares to be issued under the Share Option Scheme is 110,000,000 Shares, representing 10% of the issued Shares, if all the option under the Share Option Scheme have been granted to and duly exercised by Eligible Participants. No share option were granted under the Share Option Scheme since its adoption.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and General Information" in Appendix V to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 23 June 2018 and remains in force until 23 June 2028. The Company may, by ordinary resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination. The Share Option Scheme remaining around 4 years life.

The exercise price per Share for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

- (1) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the offer date of the option which must be a trading day;
- (2) the average of the closing prices of the Shares as shown in the daily quotations sheets issued by the Stock Exchange for the five consecutive business days immediately preceding the offer date of the option; and
- (3) the nominal value of the Shares on the offer date of the option.

Upon acceptance of the options, the Eligible Participant shall pay HK\$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter (which shall not be later than 21 days from, and inclusive of, the date of offer) issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

DIRECTORS' REPORT (CONTINUED)

COMPETING INTERESTS

For the year ended 31 December 2023, none of the Directors, the substantial Shareholders or controlling shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors, the Company has maintained the sufficient public float as required under the GEM Listing Rules as at the date of this annual report.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, 7 June 2024. A notice convening the meeting will be issued and sent to the Shareholders in due course.

EVENT AFTER THE REPORTING PERIOD

On 28 March 2024, the Company has finalised an agreement with the Customer for a settlement with a compensation amount of US\$3.0 million (equivalent to approximately HK\$23.3 million), payable by the Group to the Customer in four instalments, and that the Company shall be discharged from any further liability to the Customer in respect of the claim (the "Settlement"). Following the agreement for the Settlement, it is expected that the Group will record a gain on reversal of provision for the claim of US\$3.8 million (equivalent to approximately HK\$29.7 million) for the year ending 31 December 2024.

Save as disclosed above, details of other significant event affecting the Group after the reporting period and up to date of this annual report is set out in Note 38 to the consolidated financial statements.

AUDITOR

The consolidated financial statements for the years ended 31 December 2023 and 2022 have been audited by BDO Limited. A resolution will be proposed at the forthcoming AGM of the Company to re-appoint BDO Limited as the auditor of the Company. There was no change in the auditor of the Company in the preceding three years.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 31 May 2024 to Friday, 7 June 2024 (both dates inclusive) during which period no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not later than 4:00 p.m. on Thursday, 30 May 2024.

By order of the Board
Hyfusin Group Holdings Limited
Wong Wai Chit
Executive Director and Chairman

Hong Kong, 26 March 2024

INDEPENDENT AUDITOR'S REPORT



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話 : +852 2218 8288
傳真 : +852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE SHAREHOLDERS OF HYFUSIN GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Hyfusin Group Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) set out on pages 50 to 125, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other 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 issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report. We 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key Audit Matters

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

Impairment assessment of trade receivables

As at 31 December 2023, the Group's gross trade receivables and loss allowances amounted to approximately HK\$65,683,000 and HK\$2,564,000 respectively.

In determining the expected credit losses ("ECL") for trade receivables, management considers the credit rating of the debtors on an individual basis, taking into consideration of forward-looking information that is reasonable and supportable without undue costs or effort.

We identified the impairment of trade receivables as a key audit matter because of the significant judgement involved in developing and implementing the ECL model and high level of estimation uncertainty and the significance of the carrying amounts of trade receivables to the Group's consolidated financial statements.

Refer to Notes 20 and 32(b) to the consolidated financial statements and the accounting policies in Note 4(l)(ii) to the consolidated financial statements.

Our response:

- Evaluated the ECL model applied by the management and verified whether it is consistent with the requirements of HKFRS 9;
- Checked data inputs to supporting documents in determining the ECL;
- Challenged key assumptions and judgements, such as evaluating whether the probability of default, loss given default and external credit rating are reasonable and appropriately adjusted based on current economic conditions and forward-looking information; and
- Read and assessed the disclosures made in the consolidated financial statements.

Other Information in the Annual Report

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

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

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

Directors' Responsibilities for the Consolidated Financial Statements

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's 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 (CONTINUED)

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

From the matters communicated with the directors, 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.

BDO Limited

Certified Public Accountants

Tang Tak Wah

Practising Certificate no. P06262

Hong Kong, 26 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Revenue	6	866,251	684,947
Cost of sales		(530,710)	(477,255)
Gross profit		335,541	207,692
Other income	7	9,111	3,525
Other gains and losses, net	8	1,764	1,025
Selling and distribution expenses		(86,173)	(26,980)
Administrative expenses		(110,712)	(86,953)
Finance costs	9	(14,571)	(8,811)
Profit before income tax expense	11	134,960	89,498
Income tax expense	10	(32,674)	(16,440)
Profit for the year attributable to owners of the Company		102,286	73,058
Other comprehensive income/(expense) for the year			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Fair value gain/(loss) on debt instruments measured at fair value through other comprehensive income		21	(252)
		21	(252)
Total comprehensive income for the year attributable to owners of the Company		102,307	72,806
		HK cents	HK cents
Earnings per share			
– Basic and diluted	13	9.30	6.64

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current assets			
Property, plant and equipment	15	90,944	68,907
Right-of-use assets	16	50,420	52,169
Deposits for the acquisition of property, plant and equipment		6,689	2,860
Debt instruments at fair value through other comprehensive income	17	921	900
Financial asset at fair value through profit or loss	18	3,165	–
Deferred tax assets	28	2,020	1,109
Pledged bank deposits	21	19,346	22,135
Total non-current assets		173,505	148,080
Current assets			
Inventories	19	102,503	101,360
Trade and other receivables	20	74,138	74,643
Tax recoverable		–	5,883
Bank balances and cash	21	336,772	171,354
Total current assets		513,413	353,240
Total assets		686,918	501,320
Current liabilities			
Trade and other payables	22	92,285	43,882
Contract liabilities	23	2	14
Provision	24	52,994	–
Bank borrowings	25	6,338	23,252
Lease liabilities	26	2,873	2,106
Tax payable		17,511	–
Total current liabilities		172,003	69,254
Net current assets		341,410	283,986
Total assets less current liabilities		514,915	432,066

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current liabilities			
Bank borrowings	25	8,669	26,458
Lease liabilities	26	483	2,142
Other non-current liabilities	27	193	203
Total non-current liabilities		9,345	28,803
Total liabilities		181,348	98,057
NET ASSETS		505,570	403,263
Equity			
Equity attributable to owners of the Company			
Share capital	29	11,000	11,000
Reserves		494,570	392,263
TOTAL EQUITY		505,570	403,263

The consolidated financial statements on pages 50 to 125 were approved and authorised for issue by the Board of Directors on 26 March 2024 and are signed on its behalf by:

WONG WAI CHIT
Director

WONG MAN CHIT
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Share capital HK\$'000	Share premium HK\$'000	Fair value through other comprehensive income ("FVTOCI") reserve HK\$'000	Other reserves (Note) HK\$'000	Retained earnings HK\$'000	Total HK\$'000
As at 1 January 2022	11,000	54,954	30	20,605	243,868	330,457
Profit for the year	-	-	-	-	73,058	73,058
Other comprehensive expense:						
Fair value loss on debt instruments through other comprehensive income	-	-	(252)	-	-	(252)
Total comprehensive (expense)/income for the year	-	-	(252)	-	73,058	72,806
As at 31 December 2022 and 1 January 2023	11,000	54,954	(222)	20,605	316,926	403,263
Profit for the year	-	-	-	-	102,286	102,286
Other comprehensive expense:						
Fair value gain on debt instruments through other comprehensive income	-	-	21	-	-	21
Total comprehensive income for the year	-	-	21	-	102,286	102,307
As at 31 December 2023	11,000	54,954	(201)	20,605	419,212	505,570

Note: Other reserves represent (i) the deemed gain arising from the capital contribution from non-controlling interests of a subsidiary of HK\$6,478,000 and (ii) the combined share capital of Fleming International Limited and its subsidiaries and Britain Link Limited attributable to Controlling Shareholders (as defined in Note 1) of the Company and adjusting the non-controlling interests at the time of the Group Reorganisation (as detailed in "History, development and Reorganisation" section to the Company's prospectus dated 29 June 2018).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Cash flows from operating activities			
Profit before income tax expense		134,960	89,498
Adjustments for:			
Depreciation of property, plant and equipment	11	9,029	7,648
Depreciation of right-of-use assets	11	3,586	3,617
Interest income on debt instruments at fair value through other comprehensive income	7	(58)	(58)
Fair value change of financial asset at fair value through profit or loss	8	715	–
Allowance for inventories	11	2,615	1,541
Write off of inventories	11	2,125	–
Impairment loss on trade receivables, net of reversal	8	(1,151)	(374)
Gain on termination of lease	8	(8)	–
Loss on written off property, plant and equipment	11	21	–
Write off of trade receivables		1,176	–
Recovery of bad debts	8	–	(2)
Interest income from banks	7	(4,800)	(469)
Finance costs	9	14,571	8,811
Operating cash flows before movements in working capital		162,781	110,212
(Increase)/decrease in inventories		(5,883)	36,077
Decrease in trade and other receivables		480	15,206
(Decrease)/increase in contract liabilities		(12)	2
Increase/(decrease) in trade and other payables		48,403	(38,791)
Increase in provision		52,994	–
(Decrease)/increase in other non-current liabilities		(10)	1
Cash generated from operations		258,753	122,707
Income tax paid		(10,191)	(26,100)
Net cash generated from operating activities		248,562	96,607
Cash flows from investing activities			
Bank interest income		4,800	469
Interest income on debt instruments at fair value through other comprehensive income		58	58
Deposits for acquisition of property, plant and equipment		(6,689)	(2,860)
Purchases of property, plant and equipment		(28,227)	(3,984)
Purchase of financial asset at fair value through profit or loss		(3,880)	–
Acquisition of land use right		–	(30,479)
Release/(placement) of pledged bank deposits		2,789	(2,231)
Net cash used in investing activities		(31,149)	(39,027)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Cash flows from financing activities	37		
New bank borrowings raised		64,823	163,237
Repayment of bank overdrafts		–	(546)
Repayment of bank borrowings		(99,526)	(175,562)
Interest paid		(14,571)	(8,811)
Repayment of lease liabilities		(2,721)	(2,891)
Net cash used in financing activities		(51,995)	(24,573)
Net increase in cash and cash equivalents		165,418	33,007
Cash and cash equivalents at beginning of year		171,354	138,347
Cash and cash equivalents at end of year		336,772	171,354
Analysis of balances of cash and cash equivalents			
Bank balances and cash		336,772	171,354

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

Hyfusin Group Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Act of the Cayman Islands on 5 July 2017. The shares of the Company have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 19 July 2018. Its registered office is located at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands and principal place of business is located at Unit Nos. 4-8, 2/F, Aberdeen Marina Tower, 8 Shum Wan Road, Aberdeen, Hong Kong.

The Company is an investment holding company and its subsidiaries (the “**Group**”) are principally engaged in manufacturing and sale of candle products. Its parent and ultimate holding company is AVW International Limited (“**AVW**”), a private company incorporated in the British Virgin Islands (the “**BVI**”). Its ultimate controlling shareholders are Mr. Wong Man Chit (“**Mr. Andrew Wong**”) and Mr. Wong Wai Chit (“**Mr. Vincent Wong**”), who are brothers and act in concert over AVW and the companies now comprising the Group (the “**Controlling Shareholders**”).

2. ADOPTION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”) AND CHANGES IN OTHER ACCOUNTING POLICIES

(a) New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
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
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

For the year ended 31 December 2023

2. ADOPTION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND CHANGES IN OTHER ACCOUNTING POLICIES *(Continued)*

(a) New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

The Group has applied the amendments for the first time in the current year. HKAS 1 Presentation of Financial Statements is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. 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.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the “**Practice Statement**”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group’s financial positions and performance but has affected the disclosure of the Group’s accounting policies set out in Note 4 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

2. ADOPTION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND CHANGES IN OTHER ACCOUNTING POLICIES (Continued)

(a) New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

New guidance on accounting for the MPF-LSP offsetting mechanism in Hong Kong issued by HKICPA

In June 2022, Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “**Amendment Ordinance**”) was enacted. The Amendment Ordinance abolishes the use of the accrued benefits derived from employers’ mandatory contributions under the mandatory provident fund (“**MPF**”) scheme to offset severance payment (“**SP**”) and long service payments (“**LSP**”) (the “**Abolition**”). Subsequently, the Government of HKSAR announced that the Abolition will take effect on 1 May 2025 (the “**Transition Date**”).

The following key changes will take effect since the Transition Date:

- Accrued benefits derived from employers’ mandatory MPF contributions cannot be used to offset the LSP/SP in respect of the employment period after the Transition Date.
- The pre-transition LSP/SP is calculated using the last month’s salary immediately preceding the Transition Date, instead of using the last month’s salary of employment termination date.

Due to the complexities of the accounting for the offsetting of accrued benefits derived from an employer’s mandatory MPF contributions and its LSP obligation and the accounting for the offsetting mechanism could become material in light of the Abolition, the HKICPA published ‘Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong’ (‘the Guidance’) in July 2023 to provide guidance to account for the offsetting mechanism and the Abolition. The HKICPA concluded that there are two acceptable accounting approaches for the offsetting mechanism, being:

- Approach 1: Account for the amount expected to be offset as a deemed employee contribution towards that employee’s LSP benefits in terms of HKAS 19.93(a)
- Approach 2: Account for the employer MPF contributions and the offsetting mechanism as a funding mechanism for the LSP obligation.

For the years ended 31 December 2023 and 2022, the Group’s LSP liability after the expected offsetting under the abolition of MPF-LSP offsetting mechanism is immaterial. Application of the Guidance had no material effect on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

2. ADOPTION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) AND CHANGES IN OTHER ACCOUNTING POLICIES (Continued)

(b) Amendments to HKFRSs in issued but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current (the “2020 Amendments”) ^{2,4}
Amendments to HKAS 1	Non-current Liabilities with Covenants (the “2022 Amendments”) ^{2,4}
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or 1 January 2024.

³ Effective for annual periods beginning on or after 1 January 2025.

⁴ As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Int 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.

The Group is in the process of making an assessment of what the impact of these new or revised HKFRSs is expected to be in the period of initial application. So far the directors of the Company (the “**Directors**”) anticipate that the adoption of the new and amendments to HKFRSs will have no material impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (hereinafter collectively referred to as the “**HKFRS**”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”).

(b) Basis of measurement

The Directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The consolidated financial statements have been prepared under historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-Based Payment, leasing transactions that are accounted for in accordance with HKFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

For the year ended 31 December 2023

3. BASIS OF PREPARATION (Continued)

(b) Basis of measurement (Continued)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

(c) Functional and presentation currency

The functional currency of the Company is United States dollars (“**US\$**”), while the consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”). As the Company is listed on GEM of The Stock Exchange of Hong Kong Limited, the Directors consider that it will be more appropriate to adopt HK\$ as the Group’s and the Company’s presentation currency.

4. MATERIAL ACCOUNTING POLICY INFORMATION

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(a) Basis of consolidation *(Continued)*

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

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

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

(b) Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: (i) power over the investee, (ii) exposure, or rights, to variable returns from the investee, and (iii) the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are carried at cost less impairment loss, if any. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(c) Revenue recognition

The Group manufactures and sells candle products to the customers. Revenue is recognised at the point in time when customers obtain control of candle products, being when the goods have been shipped to the customers' specified location. There is generally only one performance obligation.

Refund liability

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Variable consideration

For contracts that contain variable consideration in relation to sales rebate and refund for defective goods to customers, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updated the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Contract liabilities

A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(d) Property, plant and equipment

Property, plant and equipment are tangible assets held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss. The cost of those items are measured in accordance with the measurement requirements of HKAS 2. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(e) 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.

The 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.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to 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 lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(e) Leases (Continued)

The Group as a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measure at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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, initially measure using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(e) Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rate following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

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

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

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(f) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised.

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(g) Impairment on property, plant and equipment and right-of-use assets *(Continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

(i) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(j) Employee benefits

(i) Defined contribution retirement plans

Payments to the contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the “**MPF Scheme**”) are recognised as an expense in profit or loss as when employees have rendered service entitling them to the contributions. The Group’s obligation under the MPF Scheme is limited to the fixed percentage contributions payable.

There were no forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) to offset existing contributions under the defined contribution schemes.

(ii) Defined benefit plan obligations

For the obligation of LSP under the Hong Kong Employment Ordinance, the estimated amount of future benefit is determined after deducting the negative service cost arising from the accrued benefits derived from the Group’s MPF contribution that have been vested with employees, which are deemed to be contributions from the relevant employees.

(iii) Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(k) Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(k) Taxation *(Continued)*

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(l) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(I) Financial instruments (Continued)

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

(i) Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“**FVTOCI**”):

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

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income (“**OCI**”) if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(I) Financial instruments (Continued)

(i) Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

Financial asset at FVTPL

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

The Group acquired a keyman insurance contract. The insurance contract is initially recognised at the amount of the premium paid and subsequently carried at fair value at the end of each reporting period, with changes in fair value recognised in profit or loss.

Changes in the fair value of financial asset at FVTPL are recognised in “other gains and losses, net”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(i) Financial instruments (Continued)

(ii) Impairment of financial assets

The Group recognises a loss allowance for expected credit loss (“**ECL**”) on financial assets which are subject to impairment assessment under HKFRS 9 (including trade and other receivables, pledged bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

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

Significant increase in credit risk

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

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(I) Financial instruments *(Continued)*

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

Significant increase in credit risk (Continued)

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(i) Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

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

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

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(i) Financial instruments *(Continued)*

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

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(I) Financial instruments (Continued)

(iii) Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

(iv) Derecognition

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

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

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(m) Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

- (a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and
- (b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

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

(n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(o) Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

4. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(p) Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control of the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.

- (b) An entity is related to the Group if any of the following conditions apply:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of 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 key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include (i) that person's children and spouse or domestic partner; (ii) children of that person's spouse or domestic partner; and (iii) dependents of that person or that person's spouse or domestic partner.

For the year ended 31 December 2023

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these consolidated financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

Provision of ECL for trade receivables

Under HKFRS 9, the Group assessed trade debtors individually for the expected credit losses, by considering the external credit rating of the debtors based on countries and industry in which the debtors operate on an individual basis, taking into consideration forward-looking information that is reasonable and supportable without undue costs or effort. Forward-looking information considered future prospects of the countries in which the Group's debtors operate. At every reporting date, the key assumptions and judgements such as probability of default, loss given default and external credit rating are reassessed based on current economic conditions and adjusted for forward-looking information.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 20 and 32(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. In cases where the net realisable value of inventories assessed are less than expected, recognition of a material allowance for inventories may arise which would be recognised in profit or loss in the period in which such recognition takes place.

Leases – Estimating the incremental borrowing rate

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

6. REVENUE AND SEGMENT INFORMATION

(i) Disaggregated revenue information

	2023 HK\$'000	2022 HK\$'000
Sale of candle products		
Daily-use candles	111,594	110,682
Scented candles	612,177	477,277
Decorative candles	27,308	10,154
Others (included Diffusers)	115,172	86,834
Total	866,251	684,947
Timing of revenue recognition		
A point in time	866,251	684,947

The Group's market were department stores and buying agents headquartered in United States of America and United Kingdom.

The contracts for sale of goods to external customers are short-term and the contract prices are fixed and agreed with the customers.

(ii) Performance obligations

Sale of candle products (revenue recognised at one point in time)

The Group sells candle products to external customers in which the revenue is recognised when the control of the goods has transferred to the customers, being when the goods have been shipped to the external customers' specified location.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All performance obligations for sale of candle products are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

6. REVENUE AND SEGMENT INFORMATION (Continued)

Segment information

Information reported to the executive directors of the Company, being the chief operating decision maker (“**CODM**”), regularly review revenue analysis by product type as set out in the revenue analysis above for the purpose of resource allocation and assessment of performance. However, other than revenue analysis, no operating results and other discrete financial information is regularly reviewed by the CODM for the purpose of resource allocation and assessment of performance of respective businesses. The CODM reviews the operating results of the Group as a whole to make decisions about resource allocation and for assessment of performance. The operation of the Group constitutes one single operating and reportable segment under HKFRS 8 Operating Segments and accordingly no separate segment information is presented.

Geographical information

The Group’s operations are located in Hong Kong and Vietnam.

Information about the Group’s revenue from external customers is presented based on the location of the destination points of the customers.

	2023 HK\$’000	2022 HK\$’000
Revenue from external customers		
United States of America	801,380	604,968
United Kingdom	60,842	72,693
Others	4,029	7,286
Total	866,251	684,947

Information about the Group’s non-current assets (exclude financial assets and deferred tax assets) is presented based on the geographical location of the assets.

	2023 HK\$’000	2022 HK\$’000
Non-current assets		
Hong Kong	3,939	5,038
Vietnam	144,114	118,898
Total	148,053	123,936

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

6. REVENUE AND SEGMENT INFORMATION (Continued)

Information about major customers

Revenues from customers of the corresponding years contributing over 5% of the total revenue of the Group are as follows:

	2023 HK\$'000	2022 HK\$'000
Customer A (Note)	544,698	383,845
Customer B	83,113	53,876
Customer C	59,341	67,163

Note: Revenue from Customer A is contributing over 10% (2022: over 10%) of the total revenue of the Group for year ended 31 December 2023.

7. OTHER INCOME

	2023 HK\$'000	2022 HK\$'000
Bank interest income	4,800	469
Interest income on debt instruments at FVTOCI	58	58
Government grants (Note)	–	498
Others	4,253	2,500
	9,111	3,525

Note:

For the year ended 31 December 2022, included in profit of loss is approximately HK\$498,000 of government grants obtained from Employment Support Scheme (“**ESS**”) under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group’s employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have other unfulfilled obligations relating to this program.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

8. OTHER GAINS AND LOSSES, NET

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Net foreign exchange gain	2,496	649
Gain on termination of lease	8	–
Fair value change of financial asset at FVTPL	(715)	–
Recovery of bad debts	–	2
Written-off trade receivables	(1,176)	–
Impairment loss on trade receivables, net of reversal	1,151	374
	1,764	1,025

9. FINANCE COSTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on bank borrowings	14,277	8,710
Interest on lease liabilities	294	101
Total finance costs	14,571	8,811

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

10. INCOME TAX EXPENSE

	2023 HK\$'000	2022 HK\$'000
Current tax		
– Hong Kong Profits Tax	25,343	10,996
– Vietnam Corporate Income Tax	7,883	5,494
– Singapore Corporate Income Tax	448	26
– (Over)/under-provision in respect of prior years	(89)	2
	33,585	16,518
Deferred tax (Note 28)	(911)	(78)
	32,674	16,440

Under the two-tier profits tax regime, Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million for Fleming International Limited (“**Fleming Hong Kong**”).

For Fleming International Vietnam Limited (“**Fleming Vietnam**”), the subsidiary incorporated in Vietnam, the statutory corporate tax rate is 20% for the years ended 31 December 2023 and 2022.

For Fleming International (Singapore) Pte. Limited (“**Fleming Singapore**”), the subsidiary incorporated in Singapore, the statutory corporate tax rate is 17% for the years ended 31 December 2023 and 2022.

The income tax expense for the years can be reconciled to the profit before income tax expense per the consolidated statement of profit or loss and other comprehensive income as follows:

	2023 HK\$'000	2022 HK\$'000
Profit before income tax expense	134,960	89,498
Tax at the Hong Kong Profits Tax rate of 16.5% (2022: 16.5%) (Note)	22,268	14,767
Tax effect of expenses not deductible for tax purposes	9,778	803
Tax effect of income not taxable for tax purpose	(445)	(67)
(Over)/under-provision in respect of prior years	(89)	2
Income tax at concessionary rate	(165)	(165)
Effect of different tax rates of subsidiaries operating in different jurisdictions	1,153	860
Others	174	240
	32,674	16,440

Note: The domestic tax rate (which is Hong Kong Profits Tax rate) in the jurisdiction where the operation of the Group is substantially based is used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

11. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting):

	2023 HK\$'000	2022 HK\$'000
Cost of inventories recognised as an expense	525,970	475,714
Allowance for inventories	2,615	1,541
Write off of inventories	2,125	–
Cost of sales	530,710	477,255
Auditor's remuneration	1,100	1,050
Donations	271	212
Short-term lease expenses	–	30
Loss on written off of property, plant and equipment	21	–
Low-value asset lease expenses	12	13
Depreciation of property, plant and equipment (<i>Note 15</i>)	9,029	7,648
Less: capitalised in inventories	(7,212)	(6,037)
	1,817	1,611
Depreciation of right-of-use assets (<i>Note 16</i>)	3,586	3,617
Less: capitalised in inventories	(747)	(746)
	2,839	2,871
Employee benefit expense (excluding directors' remuneration (<i>Note 12</i>)):		
– Salaries and allowances	56,093	50,811
– Discretionary bonus	5,983	4,986
– Retirement benefit scheme contribution	13,448	10,538
Total staff costs	75,524	66,335
Less: capitalised in inventories	(48,683)	(40,206)
	26,841	26,129

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable GEM Listing Rules and Hong Kong Companies Ordinance, is as follows:

For the year ended 31 December 2023

	Fees <i>HK\$'000</i>	Salaries and allowances <i>HK\$'000</i>	Retirement benefits scheme contributions <i>HK\$'000</i>	Other benefits <i>HK\$'000</i>	Discretionary bonus <i>HK\$'000</i>	Total <i>HK\$'000</i>
Executive directors						
Mr. Andrew Wong	–	3,600	18	923	28,000	32,541
Mr. Vincent Wong	–	3,600	18	1,065	28,000	32,683
Independent non-executive directors						
Mr. Chan Cheong Tat	180	–	–	–	–	180
Mr. Ho Chi Wai	180	–	–	–	–	180
Mr. Chu Kin Wang, Peleus	96	–	–	–	–	96
	456	7,200	36	1,988	56,000	65,680

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' remuneration (Continued)

For the year ended 31 December 2022

	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefits scheme contributions HK\$'000	Other benefits HK\$'000	Discretionary bonus HK\$'000	Total HK\$'000
Executive directors						
Mr. Andrew Wong	-	3,600	18	985	17,000	21,603
Mr. Vincent Wong	-	3,600	18	975	17,000	21,593
Independent non-executive directors						
Mr. Chan Cheong Tat	180	-	-	-	-	180
Mr. Ho Chi Wai	180	-	-	-	-	180
Mr. Chu Kin Wang, Peleus	96	-	-	-	-	96
	456	7,200	36	1,960	34,000	43,652

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

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

The executive directors of the Company are entitled to bonus payments which are determined based on a percentage of the Group's profit before income tax for the year.

During the years ended 31 December 2023 and 2022, the Group leased living quarters and carparks from outsiders and provided to Mr. Andrew Wong and Mr. Vincent Wong at rent-free and the amounts included in other benefits represent the market rental expenses paid to the landlords of the leased quarters and carparks and the utilities expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Five highest paid individuals

The five highest paid individuals of the Group during the year included two (2022: two) directors, details of their emoluments are set out above. The emoluments of the remaining three (2022: three) individuals are as follows:

	2023 HK\$'000	2022 HK\$'000
Salaries and allowances	2,724	2,597
Discretionary bonus	1,818	1,760
Retirement benefits scheme contributions	68	64
	4,610	4,421

Their emoluments were fell within the following band:

	2023 Number of individual	2022 Number of individual
Nil to HK\$1,000,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1

During the years ended 31 December 2023 and 2022, no emoluments were paid by the Group to the Directors or any of the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the years ended 31 December 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2023 HK\$'000	2022 HK\$'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	102,286	73,058
	2023	2022
Number of ordinary shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,100,000,000	1,100,000,000

No diluted earnings per share were presented as there were no potential ordinary shares in issue for both 2023 and 2022.

14. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company for the years ended 31 December 2023 and 2022, nor has any dividend been proposed since the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Computer equipment HK\$'000	Yacht in progress HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost									
At 1 January 2022	58,692	22,942	9,204	3,211	2,056	845	180	-	97,130
Additions	383	13,109	290	1,390	285	377	-	-	15,834
Written-off	-	(1,417)	-	-	-	-	-	-	(1,417)
At 31 December 2022	59,075	34,634	9,494	4,601	2,341	1,222	180	-	111,547
Additions	-	3,848	583	44	62	680	-	25,870	31,087
Written-off	-	(3,136)	(220)	-	-	-	-	-	(3,356)
At 31 December 2023	59,075	35,346	9,857	4,645	2,403	1,902	180	25,870	139,278
Accumulated depreciation									
At 1 January 2022	14,110	16,142	3,089	850	1,278	796	144	-	36,409
Provided for the year	2,107	3,341	1,251	597	293	41	18	-	7,648
Written-off	-	(1,417)	-	-	-	-	-	-	(1,417)
At 31 December 2022	16,217	18,066	4,340	1,447	1,571	837	162	-	42,640
Provided for the year	2,094	4,473	1,247	723	291	183	18	-	9,029
Written-off	-	(3,115)	(220)	-	-	-	-	-	(3,335)
At 31 December 2023	18,311	19,424	5,367	2,170	1,862	1,020	180	-	48,334
Carrying amount									
At 31 December 2023	40,764	15,922	4,490	2,475	541	882	-	25,870	90,944
At 31 December 2022	42,858	16,568	5,154	3,154	770	385	18	-	68,907

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The principal annual rates used for calculating depreciation are as follows:

– Motor vehicles	10%-33%
– Plant and machinery	14%-33%
– Furniture and fixtures	14%-25%
– Buildings	4.35%-20%
– Office equipment	20%-33%
– Computer equipment	20%-50%
– Yacht	10%

The carrying amount of buildings shown above comprises:

	2023 HK\$'000	2022 HK\$'000
Buildings on leasehold land outside Hong Kong under medium-term lease	40,764	42,858

As at 31 December 2023, certain property, plant and equipment located in Vietnam with aggregated carrying amount of Vietnamese Dong (“**VND**”) 114,360,546,000 (2022: VND120,025,818,000), equivalent to approximately HK\$39,508,000 (2022: HK\$41,494,000) were pledged to secure bank borrowings (Note 25) and general bank facilities granted to certain subsidiaries of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

16. RIGHT-OF-USE ASSETS

	Leasehold land HK\$'000	Office equipment HK\$'000	Office premise HK\$'000	Directors' quarters HK\$'000	Total HK\$'000
Cost					
At 1 January 2022	21,713	258	4,223	6,654	32,848
Addition	30,479	–	–	–	30,479
Lease modification	–	–	2,185	1,595	3,780
At 31 December 2022	52,192	258	6,408	8,249	67,107
Addition	–	243	–	–	243
Lease termination	–	(258)	–	–	(258)
Lease modification	–	–	–	1,697	1,697
At 31 December 2023	52,192	243	6,408	9,946	68,789
Accumulated depreciation					
At 1 January 2022	3,470	51	3,166	4,634	11,321
Provided for the year	782	52	1,057	1,726	3,617
At 31 December 2022	4,252	103	4,223	6,360	14,938
Lease termination	–	(155)	–	–	(155)
Provided for the year	782	52	1,092	1,660	3,586
At 31 December 2023	5,034	–	5,315	8,020	18,369
Carrying amount					
At 31 December 2023	47,158	243	1,093	1,926	50,420
At 31 December 2022	47,940	155	2,185	1,889	52,169

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

16. RIGHT-OF-USE ASSETS (Continued)

The right-of-use assets are depreciated over lease terms as follows:

Leasehold land	25 to 50 years
Office premises and directors' quarters	23 to 25 months
Office equipment	60 months

At 31 December 2023 and 2022, the Group's right-of-use assets mainly comprise leasehold interests in certain land situated in Vietnam and held under medium-term lease.

At 31 December 2023, such leasehold interests in land of VND140,439,338,000 (2022: VND142,666,478,000) equivalent to approximately HK\$47,158,000 (2022: HK\$47,940,000) were pledged to secure bank borrowings (Note 25) and general bank facilities granted to certain subsidiaries of the Company.

17. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 HK\$'000	2022 HK\$'000
Investments in unlisted bonds, with fixed interest rate of 7.45% per annum and maturity date on 24 November 2033	921	900
Analysed for reporting purposes as:		
Non-current assets	921	900

At 31 December 2023 and 2022, the fair value of the debt instruments at FVTOCI was determined based on the reference prices of respective unlisted bonds provided by financial institution.

At 31 December 2023, the debt instruments at FVTOCI of HK\$921,000 (2022: HK\$900,000) were pledged to secure the bank borrowings (Note 25) and general bank facilities granted to certain subsidiaries of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

18. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 HK\$'000	2022 HK\$'000
Unlisted investment – Keyman insurance contract	3,165	–

The keyman insurance contract relates to an insurance policy insured for a director of the Company. The keyman insurance contract is denominated in US\$.

The change in fair value of the investment during the year is recorded in “other gains or losses, net” in the profit or loss.

As at 31 December 2023, the fair value of the keyman insurance contract was estimated by making reference to the cash surrender value set out in the keyman insurance contract.

At 31 December 2023, the financial asset at FVTPL of HK\$3,165,000 (2022: Nil) was pledged to secure the bank borrowings (Note 25) and general bank facilities granted to certain subsidiaries of the Company.

19. INVENTORIES

	2023 HK\$'000	2022 HK\$'000
Raw materials	83,371	76,609
Work in progress	1,883	4,451
Finished goods	15,870	16,175
Goods in transit	9,541	7,547
	110,665	104,782
Less: Allowance for inventories	(6,037)	(3,422)
Write off of inventories	(2,125)	–
	102,503	101,360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

20. TRADE AND OTHER RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables, gross	65,683	72,793
Less: Allowance for credit losses	(2,564)	(3,715)
Trade receivables, net	63,119	69,078
Prepayments, deposits and other receivables	11,019	5,565
Total	74,138	74,643

As at 31 December 2023, trade receivables from contracts with customers amounted to HK\$63,119,000 (2022: HK\$69,078,000).

The Group allows credit period ranging from 30 to 180 days to its trade customers.

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date at the end of the year:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0–30 days	34,947	44,745
31–60 days	13,453	6,095
61–90 days	2,221	8,302
91–180 days	10,694	4,867
Over 180 days	1,804	5,069
	63,119	69,078

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

20. TRADE AND OTHER RECEIVABLES (Continued)

The ageing analysis of trade receivables, net of allowance for credit losses, as of the end of reporting period, based on past due dates, is as follows:

	2023 HK\$'000	2022 HK\$'000
Current (not past due)	47,219	52,769
Past due 1 to 30 days	9,524	6,698
Past due 31 to 60 days	3,630	3,910
Past due 61 to 90 days	942	486
Past due 91 to 180 days	1,804	2,042
Past due over 180 days	–	3,173
	63,119	69,078

The movements in loss allowance of trade receivables, net of reversal were as follows:

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	3,715	4,089
Reversal of loss allowance recognised	(2,531)	(2,968)
Written-off	(1,176)	–
Loss allowance recognised during the year	2,556	2,594
At end of the year	2,564	3,715

Details of impairment assessment of trade receivables for the year ended 31 December 2023 are set out in Note 32(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits of the Group are pledged to banks for securing long-term bank borrowings (Note 25) and therefore, the bank deposits are classified as non-current assets. The bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The pledged bank deposits/bank balances carry interest at market rates as follows:

	2023	2022
Range of interest rate per annum:		
Pledged bank deposits	0.01%-1.14%	0.0001%-1.62%
Bank balances	0.0001%-0.1%	0.0001%-0.1%

The carrying amounts of the Group's pledged bank deposits and bank balances and cash denominated in currencies other than functional currency of the relevant group entities are as follows:

	2023 HK\$'000	2022 HK\$'000
HK\$	2,880	4,426
Singapore dollars ("SG\$")	74	23
VND	189	529
Euro ("EUR")	4	4
British Pound ("GBP")	46	46
Australian dollar ("AUD")	8	8

Details of impairment assessment of pledged bank deposits for the year ended 31 December 2023 are set out in Note 32(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

22. TRADE AND OTHER PAYABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade payables (Note a)	39,259	18,879
Other payables	13,435	3,077
Accrued expenses	39,591	21,926
	92,285	43,882

(a) Trade payables

The following is an aged analysis of trade payables based on the invoice date at the end of the year:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
1–30 days	24,234	14,206
31–60 days	13,372	3,919
61–90 days	1,569	352
91–180 days	84	402
Over 180 days	–	–
	39,259	18,879

The credit period on purchases of goods is 0 to 60 days.

The Group's trade payables that are denominated in currencies other than functional currency of relevant group entities are as follows:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
VND	10,256	5,388
EUR	6	155
GBP	20	68

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

23. CONTRACT LIABILITIES

	2023 HK\$'000	2022 HK\$'000
Sale of candle products	2	14

The amount represents the trade deposits received from customers which will be recognised as the Group's revenue when the control of the goods transferred to customers.

The movements in the Group's contract liabilities are as follows:

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	14	12
Increase due to cash received, excluding amounts recognised during the year	6	2
Decrease due to recognised in revenue during the year	(18)	–
At end of the year	2	14

24. PROVISION

	2023 HK\$'000	2022 HK\$'000
Provision	52,994	–

During the year ended 31 December 2023, the Group was advised by a customer in the United States about two alerts initiated by the United States Consumer Product Safety Commission, requiring the customer to recall a certain number of units of glass jar candles supplied by the Group. In December 2023, the Group has received a claim of about US\$6.8 million (equivalent to approximately HK\$52,994,000) from the customer to compensate for its commercial losses due to the recall of the products. Accordingly, the Group has made full provision of the claim as at 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

25. BANK BORROWINGS

	2023 HK\$'000	2022 HK\$'000
Secured and guaranteed:		
Bank borrowings		
– Bank loans	13,187	37,107
– Import and export loans	1,820	12,603
	15,007	49,710

The carrying amount of the Group's bank borrowings are repayable as follows:

	2023 HK\$'000	2022 HK\$'000
Carrying amounts repayable (based on scheduled repayable terms):		
Within one year	6,338	23,252
More than one year, but not more than two years	3,587	4,903
More than two years, but not more than five years	5,082	12,560
More than five years	–	8,995
	15,007	49,710
Less: Amounts due shown under current liabilities		
– due within one year	(4,518)	(10,649)
– due within one year (contain a repayable on demand clause)	(1,820)	(12,603)
	(6,338)	(23,252)
Amounts shown under non-current liabilities	8,669	26,458

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

25. BANK BORROWINGS (Continued)

At 31 December 2023, the bank borrowings are guaranteed by corporate guarantees given by the Company or the Company and Fleming Group International Limited (“**Fleming International**”); and secured by (i) debt instruments at FVTOCI of HK\$921,000 (2022: HK\$900,000) (Note 17); (ii) pledged bank deposits (Note 21); (iii) certain of the Group’s property, plant and equipment located in Vietnam with an aggregate carrying amount of HK\$39,508,000 (2022: HK\$41,494,000) (Note 15); (iv) the Group’s leasehold interests in land classified as right-of-use assets of HK\$47,158,000 (2022: HK\$47,940,000) (Note 16); and (v) financial asset at FVTPL of HK\$3,165,000 (2022: N/A) (Note 18).

The Group’s banking facilities contain various covenants which include the maintenance of certain financial ratios. The Directors have reviewed the covenants compliance and were not aware of any breach during both years.

The exposure of the Group’s bank borrowings are as follows:

	2023 HK\$’000	2022 HK\$’000
Fixed-rate	13,187	30,136
Variable-rate	1,820	19,574
	15,007	49,710

The ranges of effective interest rates of the Group’s bank borrowings are as follow:

	2023	2022
Effective interest rates (per annum):		
Fixed-rate	6.95%-6.99%	6.95%-10%
Variable-rate	7.75%-8.5%	4.25%-7.5%

The carrying amounts of the Group’s bank borrowings that are denominated in currencies other than functional currency of the relevant group entities are as follows:

	2023 HK\$’000	2022 HK\$’000
Denominated in HK\$	–	3,575
Denominated in VND	12,256	30,136

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

26. LEASE LIABILITIES

	2023 HK\$'000	2022 HK\$'000
Analysed for reporting purpose as:		
Current liabilities	2,873	2,106
Non-current liabilities	483	2,142
	3,356	4,248

	2023		2022	
	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000
Lease liabilities				
Within one year	3,015	2,873	2,338	2,106
More than one year, but not more than two years	520	483	2,174	2,085
More than two years, but not more than five years	–	–	59	57
	3,535	3,356	4,571	4,248
Less: future interest expense	(179)	–	(323)	–
Present value of lease liabilities	3,356		4,248	
Less: Amounts due for settlement within 12 months (shown under current portion)		(2,873)		(2,106)
Amount due for settlement after 12 months		483		2,142

The lease terms for the Group's right-of-use assets are set out in Note 16. The Group discounts the lease liabilities at the weighted average incremental borrowing rates from 5.77% to 7.90% (2022: from 4.62% to 7.37%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

27. OTHER NON-CURRENT LIABILITIES

	2023 HK\$'000	2022 HK\$'000
Provision for severance allowance for employees	193	203

The amount represents the provision for severance payment set aside for the retirement of employees whom Fleming Vietnam employed before 2009. During the years ended 31 December 2023 and 2022, the Group contributes 5% of relevant payroll costs to those staff employed by Fleming Vietnam before 2009.

The movements of the provision for severance allowance during the years ended 31 December 2023 and 2022 are set out as below:

	2023 HK\$'000	2022 HK\$'000
At the beginning of the year	203	202
Additions	–	1
Utilised	(10)	–
At the end of the year	193	203

28. DEFERRED TAX ASSETS

Deferred tax assets recognised and movements thereon:

	Accelerated accounting depreciation HK\$'000	Others HK'000	Total HK'000
At 1 January 2022	707	324	1,031
Credit to profit or loss for the year	63	15	78
At 31 December 2022 and 1 January 2023	770	339	1,109
Credit to profit or loss for the year	788	123	911
At 31 December 2023	1,558	462	2,020

For the year ended 31 December 2023

29. SHARE CAPITAL

The movements in the issued ordinary share capital during the year are as follows:

	Number	HK\$'000
Authorised:		
Ordinary shares of the Company of HK\$0.01 each		
At 1 January 2022, 31 December 2022 and 31 December 2023	5,000,000,000	50,000
Issued and fully paid:		
At 1 January 2022, 31 December 2022 and 31 December 2023	1,100,000,000	11,000

30. SHARE BASED PAYMENT TRANSACTIONS

Share Option Scheme

The Company adopted the share option scheme on 23 June 2018 (the “**Share Option Scheme**”) for the purpose to provide the Company with a flexible means of giving incentive and reward to employee, advisor, customer, service provider, agent, customer, partner or joint-venture partner of the Group (including a director of the Group) (the “**Eligible Participants**”) for incentive or reward for their contribution to the Group. Under the Share Option Scheme, the board of directors (the “**Board**”) may make an offer to the Eligible Participants. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group must not exceed 30% of the total number of Shares in issue from time to time.

Unless approved by the shareholders of the Company at the general meeting, the total number of shares issued and to be issued upon exercise of the options granted and to be granted pursuant to the Share Option Scheme and any other share option schemes of the Group to each Eligible Participant (including both exercised and outstanding options) in any 12-month period up to and including the date on grant of the options must not exceed 1% of the shares in issue.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 110,000,000, representing 10% of the total number of shares in issue on 19 July 2018 (the date of listing of the Company’s shares to the Stock Exchange) and the date of this report unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Group will not be counted for the purpose of calculating 10% limit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

30. SHARE BASED PAYMENT TRANSACTIONS (Continued)

Share Option Scheme (Continued)

The Share Option Scheme was adopted for a period of 10 years commencing from 23 June 2018 and remains in force until 23 June 2028. The Company may, by ordinary resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination. The exercise price per Share for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the offer date of the option which must be a trading day; (ii) the average of the closing prices of the Shares as shown in the daily quotations sheets issued by the Stock Exchange for the five consecutive business days immediately preceding the offer date of the option; and (iii) the nominal value of the shares on the offer date of the option.

As at 31 December 2023 and 2022, no options have been granted under the Share Option Scheme.

31. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank borrowings and lease liabilities, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

The Directors review the capital structure from time to time. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, the issue of new shares, new debt or the redemption of existing debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

31. CAPITAL RISK MANAGEMENT (Continued)

The gearing ratio at the end of reporting period was as follows:

	2023 HK\$'000	2022 HK\$'000
Bank borrowings	15,007	49,710
Lease liabilities	3,356	4,248
Debt	18,363	53,958
Equity	505,570	403,263
Debt to equity ratio	3.63%	13.4%

32. FINANCIAL INSTRUMENTS

(a) Categories of financial assets and liabilities

	2023 HK\$'000	2022 HK\$'000
Financial assets		
Debt instruments at FVTOCI	921	900
Financial asset at FVTPL	3,165	–
Financial assets at amortised cost	420,237	263,237
	424,323	264,137
Financial liabilities		
Financial liabilities at amortised cost	71,057	75,914

(b) Financial risk management objectives and policies

The Group's major financial instruments include debt instruments at FVTOCI, financial asset at FVTPL, trade receivables, deposit and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, lease liabilities and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risks

The Group's activities expose it primarily to the financial risks of changes in interest rates, foreign currency exchange rates and liquidity. Details of each type of market risks are described as follows:

(i) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to its fixed-rate debt instruments at FVTOCI and secured bank borrowings.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, pledged bank deposits and secured bank borrowings. The Group currently does not enter into any hedging instrument for cash flow interest rate risk. The Group monitors interest rate risk exposure and will consider hedging significant interest rate risk should the need arises.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to variable-rate interest rates for bank balances, pledged bank deposits and secured bank borrowings at the end of the reporting period. The analysis is prepared assuming amounts of these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2022: 50 basis points) higher/lower for variable rate bank balances and pledged bank deposits, with all other variables held constant, the Group's profit for the year ended 31 December 2023 would increase/decrease by HK\$698,000 (2022: HK\$774,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risks (Continued)

(i) Interest rate risk (Continued)

Sensitivity analysis (Continued)

If interest rates had been 50 basis points (2022: 50 basis points) higher/lower for variable rate bank borrowings, with all other variables held constant, the Group's profit for the year ended 31 December 2023 would decrease/increase by HK\$1,129,000 (2022: HK\$202,000).

No sensitivity analysis for the decrease in interest rate of financial assets at FVTOCI is presented as the impact is insignificant as at 31 December 2023 and 2022.

(ii) Foreign currency risk

Certain transactions of the Group are denominated in foreign currencies which are different from the functional currency of the respective relevant entities. The Group is mainly exposed to foreign exchange risk arising from transactions that are denominated in HK\$ and VND. The Group currently does not have a foreign currency hedging policy. However, the management manages its foreign currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should the need arises.

The carrying amounts of the foreign currency denominated monetary assets and liabilities at the reporting period are as follows:

	Assets		Liabilities	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
The Group				
HK\$	3,758	5,067	3,924	8,277
VND	309	547	35,372	38,205
AUD	8	8	–	–
SG\$	76	23	–	–
EUR	4	4	3	155
GBP	46	46	20	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risks (Continued)

(ii) Foreign currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the effects of fluctuations in US\$ against VND and HK\$.

As HK\$ is pegged to US\$, the exposures to fluctuations in exchange rate of US\$ against HK\$ are considered insignificant and are not considered in the sensitivity analysis.

The following table details the Group's sensitivity to a 5% increase and decrease in the entity's respective functional currency against VND, excluding HK\$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the Directors' assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A positive/(negative) number below indicates increase/(decrease) in profit for the years ended 31 December 2023 and 2022 where US\$ strengthens against the relevant currency. For a 5% weakening of US\$ against the relevant currency, there would be an equal and opposite impact on the results for the year.

	2023 HK\$'000	2022 HK\$'000
Profit for the year – VND	1,572	1,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risks (Continued)

(iii) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents as well as undrawn banking facilities deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings.

The following table details the Group's remaining contractual maturity for its financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are variable rate, the undiscounted amount is derived from weighted average interest rate at the end of the reporting period.

	Repayable on demand/less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
At 31 December 2023						
Trade and other payables	52,694	-	-	-	52,694	52,694
Bank borrowings	6,662	3,604	5,083	-	15,349	15,007
Lease liabilities	3,015	520	-	-	3,535	3,356
	62,371	4,124	5,083	-	71,578	71,057
At 31 December 2022						
Trade and other payables	21,956	-	-	-	21,956	21,956
Bank borrowings	24,683	5,708	13,441	9,136	52,968	49,710
Lease liabilities	2,338	2,174	59	-	4,571	4,248
	48,977	7,882	13,500	9,136	79,495	75,914

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risks and impairment provision

As at 31 December 2023 and 2022, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of respective financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables from sale of candle products

In respect of trade receivables from sale of candle products, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's credit rating, past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. In addition, the Group performs impairment assessment under ECL model on trade balances individually. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 89% (2022: 79%) of the total trade receivables was due from the Group's five largest customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risks and impairment provision (Continued)

Other receivables, pledged bank deposits and bank balances and cash

The Group performs impairment assessment under ECL model on deposits and other receivables, pledged bank deposits and bank balances and cash based on 12m ECL.

The credit risk on other receivables is limited because the counterparties have no historical default record and the directors expect that the general economic conditions will not significantly change for the 12 months after the reporting date. Accordingly, no impairment loss allowance is recognised for other receivables.

The credit risk on pledged bank deposits and bank balances and cash is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Accordingly, no impairment loss allowance is recognised for pledged bank deposits and bank balances and cash.

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

	Notes	12-month or lifetime ECL	Gross carrying amount	
			2023 HK\$'000	2022 HK\$'000
Financial assets at amortised cost				
Trade receivables from sale of candle products	20	Lifetime ECL	65,683	72,793
Deposits and other receivables	20	12m ECL	1,000	670
Pledged bank deposits	21	12m ECL	19,346	22,135
Bank balances and cash	21	12m ECL	336,772	171,354
Other item				
Debt instruments at FVTOCI	17	12m ECL	921	900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

32. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risks and impairment provision (Continued)

Other receivables, pledged bank deposits and bank balances and cash (Continued)

Note:

For trade receivables from sale of candle products, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL.

Trade receivables have been assessed individually for debtors by considering the external credit rating of debtors based on the countries and industries in which the Group's trade debtors operate, taking into consideration forward-looking information includes future prospects of the economies in which the Group's debtors operate.

As at 31 December 2023, the ECL rates for non-default trade receivables ranged from 0.00% to 1.84% (2022: 0.01395% to 3.1202%) and the ECL rates for default trade receivables ranged from 53.20% to 100% (2022: 16.70% to 54.83%) are estimated based on observed default rates of the debtors from external sources of information and are adjusted for forward-looking information that is available without undue cost or effort.

During the year ended 31 December 2023, impairment loss on trade receivables, net of reversal of HK\$1,151,000 (2022: HK\$374,000) from sale of candle products is recognised to profit or loss.

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets.

The Directors consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost (excluding lease liabilities) in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

32. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used) as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets

	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Relationship of unobservable inputs to fair value
	31 December 2023 HK\$'000	31 December 2022 HK\$'000			
Debt instruments at FVOCI (Note 17)	921	900	Level 3	Based on the reference prices of respective unlisted bonds provided by financial institution which is reflecting the credit risk of the issuers.	A slight increase in discount rate used would result in significant decrease in fair value measurement to the unlisted bonds investments and vice versa.
Financial asset at FVTPL (Note 18)	3,165	N/A	Level 3	Based on the cash surrender value in accordance with the keyman insurance contract which is not an observable input.	Higher the cash surrender value, higher the fair value of the keyman insurance contract.

Note: There were no transfers into or out of level 3 during the years ended 31 December 2023 and 2022.

Reconciliation of level 3 instruments:

	2023 HK\$'000	2022 HK\$'000
Opening balance	900	1,152
Addition	3,880	–
Fair value change recognised in OCI	21	(252)
Fair value change recognised in profit or loss	(715)	–
Closing balance	4,086	900

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

33. CAPITAL COMMITMENTS

	2023 HK\$'000	2022 HK\$'000
Capital expenditure of contracted for but not provided in the consolidated financial statements in respect of:		
– construction of a factory	19,390	–
– acquisition of property, plant and equipment	10,841	254
	30,231	254

34. RETIREMENT BENEFIT SCHEMES

	2023 HK\$'000	2022 HK\$'000
Contributions made during the year	13,484	10,574

The employees of the Group's subsidiary in Vietnam are members of a state-managed retirement benefit scheme operated by the local government. The subsidiary is required to contribute 5% of the relevant payroll costs to those staff employed before 2009 (details in Note 27) and a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group's subsidiary in Vietnam with respect to the retirement benefit scheme is to make the specified contributions. The total contribution to the state-managed retirement benefit scheme and charged to profit or loss amounted to HK\$13,217,000 for the year ended 31 December 2023 (2022: HK\$10,267,000).

The Group operates a scheme under Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000 for the Group's Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. For employees who are members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme subject to a maximum of HK\$1,500 per month, which contribution is matched by the employee. The total contribution to MPF Scheme and charged to profit or loss amounted to HK\$267,000 for the year ended 31 December 2023 (2022: HK\$307,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

35. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The Directors were considered to be the key management personnel of the Company. The remuneration of the Directors is set out in Note 12.

36. PARTICULARS OF SUBSIDIARIES

Name of subsidiary	Place and date of incorporation/ form of business structure	Issued and fully paid ordinary share capital	Equity attributable to the Company		Principal activities
			2023	2022	
Directly held:					
Fleming International	BVI 5 July 2017 Limited liability company	Ordinary shares US\$100	100%	100%	Investment holding, BVI
Indirectly held:					
Fleming Hong Kong	Hong Kong 29 June 1993 Limited liability company	Ordinary shares HK\$19,000,858	100%	100%	Trading of candle products and investment holding, Hong Kong
Fleming Vietnam	Vietnam 12 October 2004 Limited liability company	Ordinary shares US\$3,300,000	100%	100%	Design, manufacture and trading of candle products, Vietnam
Success Glory Worldwide Limited	BVI 2 March 2004 Limited liability company	Ordinary shares US\$5,000	100%	100%	Investment holding, BVI
Fleming Singapore	Singapore 25 January 2019 Limited liability company	Ordinary shares SG\$2	100%	100%	Dormant, Singapore

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOW

Reconciliation of liabilities arising from financing activities

	Bank borrowings HK\$'000	Lease liabilities HK\$'000	Total HK\$'000
At 1 January 2022	62,035	3,359	65,394
Financing cash flows:			
New bank borrowings raised	163,237	–	163,237
Repayment of bank borrowings/lease liabilities	(175,562)	(2,891)	(178,453)
Interest paid	(8,710)	(101)	(8,811)
Total changes from cash flows	(21,035)	(2,992)	(24,027)
Non-cash changes:			
Lease modification (<i>Note (i)</i>)	–	3,780	3,780
Interest expense	8,710	101	8,811
Total non-cash changes	8,710	3,881	12,591
At 31 December 2022 and 1 January 2023	49,710	4,248	53,958
Financing cash flows:			
New bank borrowings raised	64,823	–	64,823
Repayment of bank borrowings/lease liabilities	(99,526)	(2,721)	(102,247)
Interest paid	(14,277)	(294)	(14,571)
Total changes from cash flows	(48,980)	(3,015)	(51,995)
Non-cash changes:			
Lease addition (<i>Note (ii)</i>)	–	243	243
Lease modification (<i>Note (iii)</i>)	–	1,697	1,697
Early termination of leases	–	(111)	(111)
Interest expense	14,277	294	14,571
Total non-cash changes	14,277	2,123	16,400
At 31 December 2023	15,007	3,356	18,363

For the year ended 31 December 2023

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOW (Continued)

Reconciliation of liabilities arising from financing activities (Continued)

Notes:

- (i) During the year ended 31 December 2022, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$3,780,000 and HK\$3,780,000, respectively, in respect of the lease modification for the Group's office premises and a director's quarter.
- (ii) During the year ended 31 December 2023, the Group had non-cash addition to right-of-use assets and lease liabilities of HK\$243,000 and HK\$243,000, respectively, in respect of the lease addition for the Group's office equipment.
- (iii) During the year ended 31 December 2023, the Group had non-cash additions to right-of-use assets and lease liabilities of HK\$1,697,000 and HK\$1,697,000, respectively, in respect of the lease modification for a director's quarter.

38. EVENT AFTER THE REPORTING PERIOD

On 20 February 2024, the Company entered into a sale and purchase agreement in respect of the share buy-back (the "**Agreement**") with Vibes Enterprises Company Limited, an independent shareholder (the "**Vendor**"), pursuant to which the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to repurchase for cancellation, a total of 181,500,000 ordinary shares of the Company at the total consideration of HK\$30,000,000, equivalent to approximately HK\$0.165 per share. The Agreement is conditional upon the satisfaction of the following conditions:

- (i) the passing of the resolution(s) at the extraordinary general meeting of the Company to be convened and held for the disinterested shareholders to consider, and if thought fit, approve the Agreement, the share buy-back and the transactions contemplated thereunder by at least three-fourths of the votes cast on a poll by the Disinterested Shareholders approving the Agreement and the transactions contemplated thereunder;
- (ii) the approval by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of its delegate for the Share Buy-back having been granted pursuant to Rule 2 of the Share Buy-backs Code and remaining in full force and effect and any condition(s) to which such approval is/are subject to having been satisfied in all respects; and
- (iii) all necessary consents and approvals required to be obtained on the part of the Company and the Vendor in respect of the Agreement and the transactions contemplated thereunder having been obtained and remaining in full force and effect.

Upon completion of the above transaction, the Group's consolidated equity will decrease by HK\$30,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2023 HK\$'000	2022 HK\$'000
Non-current assets		
Investment in a subsidiary	45,435	45,435
Amount due from a subsidiary	23,483	26,854
	68,918	72,289
Current assets		
Prepayments	260	253
Cash and cash equivalents	268	262
	528	515
Current liabilities		
Amount due to a subsidiary	1	1
Accrued expenses	1,564	1,367
	1,565	1,368
Net current liabilities	(1,037)	(853)
Total assets less current liabilities	67,881	71,436
Equity		
Equity attributable to owners of the Company		
Share capital	11,000	11,000
Reserves (<i>Note</i>)	56,881	60,436
Total equity	67,881	71,436

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2023

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

	Share premium <i>HK\$'000</i>	Special reserve* <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2022	54,954	45,434	(36,707)	63,681
Loss for the year	–	–	(3,245)	(3,245)
At 31 December 2022 and 1 January 2023	54,954	45,434	(39,952)	60,436
Loss for the year	–	–	(3,555)	(3,555)
At 31 December 2023	54,954	45,434	(43,507)	56,881

* Special reserve represents the difference between the nominal amount of the share capital issued by the Company and the net assets value of a subsidiary by the Company pursuant to the Group Reorganisation in preparation for the listing of the Company's shares on GEM of The Stock Exchange of Hong Kong Limited.

FINANCIAL SUMMARY

A summary of the results and consolidated of assets and liabilities of the Group for the last five financial years, extracted from the published financial statements in annual reports and the Prospectus of the Company dated 29 June 2018, is as follows:

RESULTS

	For the year ended 31 December				
	2023 HK\$'000	2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000
Revenue	866,251	684,947	815,143	555,912	307,546
Profit before income tax expense	134,960	89,498	129,790	109,790	30,914
Income tax expense	(32,674)	(16,440)	(23,579)	(19,308)	(6,251)
Profit for the year	102,286	73,058	106,211	90,482	24,663

ASSETS AND LIABILITIES

	As at 31 December				
	2023 HK\$'000	2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000
Total assets	686,918	501,320	482,983	353,742	230,240
Total liabilities	(181,348)	(98,057)	(152,526)	(129,482)	(96,452)
Total equity	505,570	403,263	330,457	224,260	133,788