



僑雄國際控股有限公司
Kiu Hung International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 00381)

Leading the Way Towards

A BRIGHT FUTURE

ANNUAL REPORT 2023

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Corporate Information

EXECUTIVE DIRECTORS:

Mr. Zhang Qijun (*Chairman*)
Mr. Liu Mingqing
Mr. Sun Weiwei

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Wang Xiao Ning
Ms. Chen Yuxin
Ms. Wei Yu

REGISTERED OFFICE

Cohort Limited
Sofia House,
3rd Floor,
48 Church Street,
Hamilton, HM12,
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Flat E, 20th Floor
Lucky Plaza
315-321 Lockhart Road
Wan Chai
Hong Kong

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Cohort Limited
Sofia House,
3rd Floor,
48 Church Street,
Hamilton, HM12,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

KTC Partners CPA Limited
Room 1305-07, 13/F
New East Ocean Centre
9 Science Museum Road
Tsim Sha Tsui East
Kowloon, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road Central
Hong Kong

OCBC Wing Hang Bank Limited
Head office
161 Queen's Road Central Hong Kong

COMPANY'S WEBSITE

www.kh381.com

Financial Highlights

FINANCIAL PERFORMANCE

For the year ended 31 December	2023 HK\$'000	2022 HK\$'000	Change Increase/ (Decrease)
Revenue	383,923	420,904	(8.79%)
Gross profit	165,807	157,020	5.60%
Profit/(loss) for the year	65,701	(38,501)	270.65%
Profit/(loss) attributable to shareholders	37,213	(59,521)	162.52%
Basic earnings/(loss) per share (in HK cents)	39.06	(117.44)	133.26%
Total assets	770,281	879,939	(12.46%)
Total equity	339,976	285,008	19.29%

Chairman's Statement

On behalf of the board (the "**Board**") of the directors (the "**Director(s)**") of Kiu Hung International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the annual report of the Group for the financial year ended 31 December 2023 (the "**Year**").

RESULTS AND DIVIDENDS

For the Year, the Group recorded turnover of approximately HK\$383.9 million (2022: HK\$420.9 million), representing a decrease of approximately 8.8% as compared with last year.

The Group's profit attributable to equity holders of the Company for the Year was approximately HK\$37.2 million (2022: loss attributable HK\$59.5 million), representing an increase of approximately HK\$96.7 million comparing to last year. The increase in profit attributed to equity holders of the Company for the Year was mainly attributed to (i) the cancellation of expired promissory notes amounted to HK\$92 million; and (ii) the gain on loan capitalisation of the financial liabilities approximately HK\$28.4 million by the issue of new ordinary shares, during the Year. Basic earnings per share for the Year was HK cents 39.06 (2022: Basic loss per share HK cents 117.44 (restated)).

BUSINESS REVIEW

The gross profit ratio of the toys and gifts business was approximately 37.1% for the Year which was comparable to the previous year of 35.5%.

The gross profit ratio of the Chinese Herbs business was approximately 56.3% for the Year as compared with 41.5% for 2022.

For further details of the Group's business and operational review, please refer to the "Management Discussion and Analysis" section of this annual report.

BUSINESS PROSPECTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group has been reviewing its operations and exploring other investment opportunities that have earning potentials in order to expand its existing operations and diversify its businesses and income base to maximize the interests of the Group and the shareholders as a whole. This is evidenced by the entering of:

In January of 2024, the Group had committed in the development of plantation facilities in China through its subsidiaries.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our most sincere thanks and gratitude for the continuing supports of our shareholders, business partners and parties from various fields, and also for the contribution and dedication of our management and dedicated staff in previous year.

Zhang Qijun

Chairman

Hong Kong, 28 March 2024

Management Discussion and Analysis

BUSINESS OVERVIEW

Due to the increasing trend of Bank interest rate of Hong Kong during the year of 2023, along with the weak economy of both Hong Kong and mainland China, and as well as the slow recovery pace of the global business environment, the Group still operated under challenges.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2023 (the “Year”), the Group recorded turnover of approximately HK\$383.9 million (2022: HK\$420.9 million), representing a decrease of approximately 8.8% as compared with last year.

The Group’s profit attributable to equity holders of the Company for the Year was approximately HK\$37.2 million (2022: loss attributable HK\$59.5 million), representing an increase of approximately HK\$96.7 million comparing to last year. The increase in profit attributable to equity holders of the Company for the Year was mainly attributable to (i) the cancellation of expired promissory notes amounted to HK\$92 million; and (ii) the gain on loan capitalisation of the financial liabilities approximately HK\$28.4 million by the issue of new ordinary shares, during the Year. Basic earnings per share for the Year was HK cents 39.06 (2022: Basic loss per share HK cents 117.44 (restated)).

BUSINESS AND OPERATIONAL REVIEW

Segmental Information Analysis

During the Year, the Group has six reportable segments, namely “Manufacturing and trading of toys and gifts items”, “Exploration of natural resources”, “Fruit plantation”, “Leisure”, “Culture” and “Chinese herbs”.

The Group’s reportable segments are strategic business units that offer different products and services. They are managed separately because each business has different economic characteristics.

Manufacturing and Trading of Toys and Gifts Items

Turnover from toys and gifts business for the Year was approximately HK\$262.4 million (2022: HK\$293.0 million), representing a decrease of approximately 10.4% comparing to last year. The decrease in turnover was mainly attributable to the decrease in revenue generated from the North America. The gross profit margin was increased, which was 37.1% (2022: 35.5%) during the Year, showing the production and logistic cost was decreased with a diversified category of products launched to the market.

Management Discussion and Analysis

Exploration of Natural Resources

The Group owns the minor interest of exploration rights of Bayanhushuo Coal Field and Guerbanhada Coal Mine, all located in Inner Mongolia Autonomous Region (the “**Inner Mongolia**”), the PRC with total estimated coal resources of approximately 500.05 million tonnes under the JORC Code.

The retained equity interest was regarded as financial assets at FVTOCI since the Group has no significant influence to participate in the financial and operating policy decisions of the Investment Group.

In the opinion of the directors of the Company as at 31 December 2023, the Investment Group is still unable to generate cash flows to the Group due to the absence of the mining rights of coal mines concerned. Fair value of approximately HK\$3,435,000 was recognised for the year ended 31 December 2020 to fully write down the carry amount of the investment and no reversal of impairment for the years ended 31 December 2023 and 2022.

Fruit Plantation

(a) *Multijoy Group*

Multijoy Developments Limited, 40% equity interest of which was acquired by the Group, together with its subsidiaries (the “**Multijoy Group**”) is principally engaged in the business of holding of forestry concession rights in relation to a parcel of forest land situated in Nanfeng County, Fuzhou City, Jiangxi Province, the PRC with an aggregate site area of approximately 1,765.53 Chinese mu (the “**Forest Land**”). The cooperation agreement with an independent third party has expired during the Year. The Multijoy Group is changing the use of land and developing a diversified ecological sightseeing farm business on the Forest Land.

The Group’s share of result of loss amounted to approximately HK\$2.0 million for the Year (2022: loss of HK\$5.8 million).

(b) *USO Management & Holding Co. Ltd (“USO”)*

USO entered into a development cooperation agreement with Plantation Construction & Development Co Ltd. (the “**Development Company**”), pursuant to which USO and the Development Company will jointly develop the leased properties. The management expected that the leased properties will be mainly developed for commercial purposes such as residential properties and hotels, residential villas, high-end hotel and casino, and ancillary public amenities. Under the impact of weak global economic environment, the begin construction date of the luxury hotel and casino, as well as the first 100 residential villas is delayed, and expected to be taken place in January 2025. The management of the Group is assessing the operational and financial impacts of the proposed arrangements to the Group.

Impairment loss of investment in USO amounted to approximately HK\$35.8 million (2022: Nil) for the Year. The Group’s share of result of loss amounted to approximately HK\$1.1 million for the Year (2022: profit of HK\$10.5 million).

Leisure

(a) *Tea related business*

In the recent years, the competition in tea industries becomes more fierce as the traditional sales model is facing a keen competition from those online business platform. During the Year, Fujian Yuguo has continued to fine-tune its operation model to meet its customers’ needs, including but not limited to provide more attractive terms to its selected customers to increase its competitiveness in the markets.

Reversal on impairment loss approximately HK\$1.5 million (2022: Nil) for the Year. The Group’s share of result of loss amounted to approximately HK\$47,000 (2022: approximately HK\$0.1 million) for the year.

Management Discussion and Analysis

(b) *Wine related business*

Wine culture forms an important part and has a long history in the Chinese culture. In view of the increase in the living standard of the Chinese people in the recent years, the Group is optimistic about the future growth in the wine industry and has intention to invest in the wine business, especially for the yellow wine products. Since the end of 2016, the Group has invested in the yellow base wine.

As stated in the Company's announcement dated 18 March 2020, the acquisition of 20% equity interest in Anhui Fu Lao was completed on 31 May 2018. However, due to the lack of cooperation from the administrator of the deceased vendor of Anhui Fu Lao (the "**Administrator**"), the transfer procedures of 20% equity to the Group remains incomplete. Based on the legal opinion, the directors of the Company believe that the Group could obtain a court order to enforce the transfer of 20% equity from the Administrator to the Group. Details of the updated case, please refer to the Company's announcement dated 14 March 2023.

Based on the legal opinion from the PRC lawyers, the Group have two years right to enforce the judgment on the Administrators. As at the date of issuance of the consolidated financial statements, the transfer of ownership is yet to be completed and the directors are of the opinion it is in the interest of Anhui Fu Lao's to allow the business to continue to operate normally. The directors will take further action to enforce the judgment in August 2024 if the transfer is not completed by then.

The Group's share of result of loss amounted to HK\$22.8 million for the Year (2022: HK\$2.9 million).

(c) *Outbound tourism*

On 30 December 2016, the Company engaged its legal advisers to issue a legal letter to Unicorn Sino Limited ("**Unicorn**"), the vendor. As set out in the letter, the Company had relied on the representations of Ms. Wei, the ultimate sole beneficial owner of Unicorn, in particular, the business plan presented by Unicorn to the Company, when the Company and its subsidiaries entered into the sale and purchase agreement (as amended by the supplemental agreement dated 16 December 2015) and the Shareholders' Agreement (as amended by the supplemental agreement dated 16 December 2015) (collectively, the "**Agreements**") with Unicorn.

It was subsequently discovered that the representations made by Ms. Wei in respect of the business of the outbound tourism were false and misleading. Based on the legal advice from a senior counsel, the Agreements were void or voidable by reason of fraudulent misrepresentation and the promissory note can be rescinded, and Unicorn cannot enforce the promissory note against the Company. In the opinion of the Directors, the financial effects of the rescission, will be recognised when the promissory note is legally extinguished.

Based on the latest legal opinion from the Company's external legal lawyer, the promissory notes have been time-barred under the Limitation Ordinance, and therefore, the promissory notes of HK\$92,000,000 was expired and derecognised, with the corresponding account recognised as income during the year ended 31 December 2023.

Management Discussion and Analysis

Culture

No turnover from culture business for the Year and 2022.

Chinese Herbs

Hubei Jincaotang Pharmaceutical Co., Ltd. (湖北金草堂藥業有限公司), 51% equity interest of which was acquired by the Group in 2021, is principally engaged in the business of Chinese herbs and the decoction business in Mainland China. Turnover from the Chinese herbs related business for the Year was approximately HK\$121.5 million (2022: HK\$127.9 million).

The Company has invested in the infrastructure (including construction of roads) of multiple Chinese herbs plantation bases in 2023. The process is expected to take one to two years to become operational. This is a stage of the Company's planning for the Chinese Herbs business in the next 10 years. The Company believes that investing in the plantation bases will bring the following benefits:

1. Owning Chinese herbs plantation bases allows the Company to have better control over the quality of the products. The Company can choose to cultivate high-quality herbs and monitor factors such as soil quality, water quality, fertilization, and pesticide use during the plantation process to ensure the purity and safety of your products.
2. Chinese herbs plantation bases can help the Company better control costs. The Company can directly manage the cultivation process, reducing costs associated with intermediaries, such as supplier profits and transportation expenses.
3. It can ensure a stable supply. The Company are no longer dependent on external suppliers, thus avoiding the risks associated with unstable or interrupted supply. This can help the Company ensure the continuous production and supply of your products, meeting the demands of the customers.

Geographical Information

During the Year, the Group recorded revenue in North America (includes the USA and Canada) of approximately HK\$262 million as compared to approximately HK\$292 million last year and represented approximately 68.2% (2022: approximately 69.3%) of the Group's total revenue. Revenue in the PRC (including Hong Kong) amounted to approximately HK\$122.1 million for the Year as compared to approximately HK\$128.8 million last year and represented approximately 31.8% (2022: approximately 30.6%) of the Group's total revenue of the Year.

Selling and Distribution Costs

The amount of the selling and distribution costs for the Year was approximately HK\$37.3 million (2022: approximately HK\$47.1 million). The decrease was mainly attributable by the decrease in salary costs of the toys segment during the Year.

Administrative Expenses

Administrative expenses for the Year increased by approximately 9.6% to approximately HK\$86.4 million as compared to approximately HK\$78.8 million in the previous year. The increase in administrative expenses was mainly attributable the increase in salary and rental expenses during the Year.

Finance Costs

Finance costs for the Year decreased by approximately 42.1% to approximately HK\$27.1 million as compared to approximately HK\$46.8 million in the previous year. The decrease in finance costs was mainly attributable by the settlement of the promissory notes in year 2023, and the decrease in interest payment for the outstanding loans during the Year.

Management Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

The Group generally finances its operations with internally generated cash flow and facilities provided by its bankers in Hong Kong and in PRC. As at 31 December 2023, the Group had bank balances and cash of approximately HK\$111.9 million (2022: HK\$99.1 million). The Group's bank balances and cash were mostly denominated in Hong Kong dollars, United States Dollars and Renminbi.

As at 31 December 2023, the Group's borrowings amounted to approximately HK\$141.8 million (2022: HK\$109.7 million). The Group's borrowings were mainly denominated in Hong Kong dollars, United States Dollars and Renminbi.

As at 31 December 2023, the Group's promissory notes amounted to approximately HK\$Nil (2022: HK\$164.8 million) in aggregate. The Group's promissory notes were denominated in Hong Kong dollars.

During the year, the promissory notes approximately amounted to HK\$92 million was derecognised because of the extinguishment, and another set of promissory notes approximately amounted to HK\$60 million were cancelled due to the termination of previous sale and purchase agreements in respect of the purchase of wine and juice.

The Group monitors its capital using a gearing ratio, which is the Group's net debt (comprising trade payables, accruals and other payables, promissory notes, lease liabilities, borrowings, contingent consideration payables, amount due to an associate and convertible bonds less bank balances and cash) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2023 was 89.1% (2022: 166.6%).

As the majority of the Group's transactions and borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi, the Group's exposure to exchange rate fluctuation was relatively insignificant, and the Group had not used any financial instruments for hedging during the Year.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS AND DISPOSALS OF ASSETS

There was no significant investment, material acquisition and disposal during the year.

IMPORTANT EVENTS AFTER THE END OF THE YEAR

Subsequent to the end of the reporting period, the directors of the Company proposed to implement the Share Consolidation which would involve the following:

(i) Acquisition of Jiangxi Jiuai Food Co., Ltd

On 10 March 2022, the Group entered into a sale and purchase agreement with an independent third party to acquire 49% of the equity interest in Jiangxi Jiuai Food Co., Ltd (the "**Target Company**"), a company incorporated in the PRC with limited liability at a consideration of HK\$45,750,000 to be settled by way of HK\$15,250,000 by way of issue of shares in the Company and HK\$30,500,000 by way of the issue of convertible bonds in the Company. The Target Company is principally engaged in the food and beverage research and development, production, marketing, and sale of food and beverage products. The Target Company also provides soft beverage products processing services for other beverage companies. Details of the proposed acquisition are set out in the Company's announcement dated 10 March 2023, 21 March 2023, 28 April 2023 and 30 June 2023. As at the report date, the proposed acquisition is not yet completed.

Management Discussion and Analysis

(ii) Share Consolidation and Adjustment on Existing Convertible Bonds

Pursuant to the special general meeting held on 16 January 2024, an ordinary resolution was passed for the share consolidation of the Company's ordinary shares on the basis that every two (2) issued and unissued Existing Shares of HK\$0.05 each will be consolidated into one (1) Consolidated Share of HK\$0.1 each ("**Share Consolidation**"). The effective date of the Share Consolidation was 18 January 2024.

Upon the completion of the Share Consolidation, the existing convertible bonds with the conversion price of HK\$50 per existing share will be adjusted to HK\$100 per consolidated share and the number of consolidated shares that can be issued upon full exercise of the conversion right attached to the existing convertible bonds will be adjusted from 3,400,000 existing shares to 1,700,000 consolidated shares.

Details of the share consolidation and adjustment on existing convertible bonds are set in the circular of the Company dated 27 December 2023 and in the Company's announcement dated 16 January 2024.

(iii) Placing of Convertible Bonds

On 29 August 2023, the Company entered into the placing agreement as supplemented by the Supplemental Placing Agreement on 20 October 2023 and the Second Supplemental Placing Agreement dated 18 December 2023) with the Placing Agent, pursuant to which the Placing Agent has conditionally agreed to procure, on a best efforts basis, not less than six places to subscribe for the Convertible Bonds in an aggregate principal amount of up to HK\$45,000,000 at the Conversion Price of HK\$0.15 per Share (subject to adjustment). Details of the share consolidation and adjustment on existing convertible bonds are set in the circular of the Company dated 27 December 2023 and announcements of the Company 29 August 2023, 19 September 2023, 20 October 2023, 17 November 2023, 8 December 2023 and 18 December 2023.

An ordinary resolution was passed at the special general meeting held on 18 January 2024 for the placing the convertible bonds. Details are set out in the announcement of the Company dated 16 January 2024. The placing of convertible bonds was completed on 6 February 2024.

Management Discussion and Analysis

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2023 and 2022.

CAPITAL COMMITMENT

As at 31 December 2023 and 2022, the Group had no significant capital commitment.

DIVIDEND

The Directors do not recommend any payment of final dividend for the years ended 31 December 2023 and 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries have purchased, redeemed or sold any of the Company's listed securities during the years ended 31 December 2023 and 2022.

PROSPECTS

The Group has been reviewing its existing operations from time to time and exploring other investment opportunities that have earning potentials in order to expand its existing operations and diversify its businesses and income base to maximize the interests of the Group and the shareholders as a whole.

CAPITAL STRUCTURE

On 30 May 2023, 737,190,180 issued ordinary shares had been cancelled under Share Consolidation becoming effective at the same date, based on the result of the special general meeting held on 28 April 2023.

On 23 June 2023, all of the conditions precedent under the Subscription Agreement have been fulfilled and the Completion took place. Upon completion of this loan capitalization through subscription of new shares under the general mandate, 9,210,000 Subscription Shares were allotted and issued to the Subscriber at the Subscription Price of HK\$0.2 per Subscription Share pursuant to the terms of the Subscription Agreement which was entered into by the Company and the subscriber on 9 June 2023.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2023, the Group had a total of 387 employees (2022: 399 employees). The Group maintains good working relations with its employees and has committed itself to staff training and development. Remuneration packages are maintained at a competitive level and are being reviewed on a yearly basis. Bonus and share options are awarded to employees according to the assessment of individual performance and industrial practice.

Profile of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Zhang Qijun (“Mr. Zhang”), aged 46, had been appointed as an executive director of the Company since March 2016. Mr. Zhang was also appointed chairman of the Company since July 2019. Mr. Zhang is currently the Legal Person of Fuzhou Taijiang He Xuan Trading Co. Ltd., a company principally engaged in trading in the PRC. Mr. Zhang has approximately 17 years of experience in arts and design, and trading.

Mr. Liu Mingqing (“Mr. Liu”), aged 45, had been appointed as an executive director of the Company on 27 March 2020. Mr. Liu has over 15 years of experience in financial and investment related business and considerable experience in securities and futures, corporate finance, derivative products and other various financial services. Mr. Liu is currently involved in Private Equity investment and enterprise management.

Mr. Sun Weiwei (“Mr. Sun”), aged 40, had been appointed as an executive director of the Company since 5 September 2023. He had been the manager and marketing director of a company in the retail industry in the PRC since 2010.

Independent Non-executive Directors

Ms. Wei Yu (“Ms. Wei”), aged 35, had been appointed as the independent non-executive director of the Company since 19 June 2023. She served as the Wealth Management Executive Director of Hywin Asset Management (Hong Kong) Limited from 2020 up to now.

Mr. Wang Xiao Ning (“Mr. Wang”), aged 64, had been appointed as an independent non-executive director of the Company since June 2015. Mr. Wang joined the field of import and export trading in 1990. He is currently the general manager of 福建省鄉鎮企業進出口公司 (Fujian Township Enterprises Import and Export Corporation*). Mr. Wang has over 25 years of experience in the import and export trading management.

Ms. Chen Yuxin (“Ms. Chen”), aged 26, had been appointed as an independent non-executive Director on 13 May 2020. Over the years, she has actively expanded the overseas business operation, and currently serves as the investment director of China Commerce Huaxia Products Co., Ltd..

Profile of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Hui Ki Yau ("Mr. Hui"), aged 63, is the president of the Group's toys and gifts business. He is responsible for the operations and the sales and marketing functions of the toy and gift business of the Group. Mr. Hui has over 25 years of experience in the sales and marketing field. He is currently a Standing Committee Member of the Chinese People's Political Consultative Conference of Putian City, Fujian Province, the PRC, an Executive Member of Fujian Putian Commerce Association, a member of the Hong Kong Trade Development Council Toys Advisory Committee, a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. Mr. Hui is the brother of Mr. Hui Kee Fung and Madam Hui Hung Tan, Teresa.

Madam Hui Hung Tan, Teresa, aged 56, is the Director of operations and sales of the Group's toys and gifts business. Madam Hui has over 20 years of experience in the toy and decorative gift industries. Madam Hui is a Director of The Fujian Putian University and an honorary citizen of Putian, Fujian, the PRC. She is the sister of Mr. Hui Kee Fung and Mr. Hui Ki Yau.

Report of The Directors

The directors of the Company herein present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 46 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activities and geographical area of operations for the year ended 31 December 2023 is set out in note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2023 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 34 to 137 of this annual report. The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2023.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

Details of the Group's investment properties are set out in note 17 to the consolidated financial statements.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2023 are set out in note 32 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 35 and 39 respectively to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 40 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company had no distributable reserves (2022: HK\$Nil). Under the Company's Bye-Laws (Bermuda) and the Companies Act 1981 of Bermuda, the contributed surplus and share premium of the Company of approximately HK\$125.2 million (2022: HK\$125.2 million) and approximately HK\$1,785.1 million (2022: HK\$1,782.8 million), respectively, at 31 December 2023 are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 138 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws (Bermuda) or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totaling approximately HK\$450,000 (2022: HK\$28,000).

Report of The Directors

RETIREMENT BENEFITS SCHEMES

The Group operates a Pension Scheme and a MPF Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees. The employees of the subsidiaries in the PRC participate in the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contributions to the schemes at a certain percentage of the basic salaries of their employees. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the consolidated statement of profit or loss of approximately HK\$2,765,000 (2022: approximately HK\$2,512,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2022: Nil) was available at 31 December 2023 to reduce the Group's future contributions.

The Group does not have any other pension scheme for its employees. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2023 in respect of the retirement of its employees.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 74.14% of the total revenue for the year and sales to the largest customer included therein accounted for approximately 28.41%. Purchases from the Group's five largest suppliers accounted for approximately 43.47% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 23.20%.

None of the directors of the Company or any of their associates or any shareholders (which to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

The directors of the Company during the year were:

Executive Directors:

Mr. Zhang Qijun (*Chairman*)
Mr. Liu Mingqing
Ms. Lai Yee Man (*resigned on 17 April 2023*)
Mr. Sun Weiwei (*appointed on 5 September 2023*)

Independent non-executive Directors:

Mr. Wang Xiao Ning
Ms. Chen Yuxin
Mr. Kong Chun Wing (*resigned on 15 June 2023*)
Ms. Wei Yu (*appointed on 19 June 2023*)

The directors of the Company, including the non-executive directors and the independent non-executive directors are subject to retirement by rotation and re-election in accordance with the provisions of the Company's Bye-Laws (Bermuda).

According to articles 97 of the Company's Bye-Laws (Bermuda) (the "**Bye-Laws**"), at each annual general meeting of the Company (the "**AGM**"), one-third of the directors of the Company for the time being (or, if such number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director of the Company shall be subject to retirement by rotation at least once every three years. A retiring director of the Company shall be eligible for re-election. In accordance with Articles 97 of the Bye-Laws, Mr. Zhang Qijun, Mr. Sun Weiwei and Ms. Wei Yu shall retire from office by rotation at the forthcoming AGM. Being eligible, Mr. Zhang Qijun, Mr. Sun Weiwei and Ms. Wei Yu will offer themselves for re-election as the executive director and the independent non-executive director respectively.

Report of The Directors

In accordance with Article 100(B) of the Bye Laws, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to their number) and shall then be eligible for re-election at that meeting.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and of the senior management of the Group are set out on pages 12 to 13 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Zhang Qijun renewed his service contract with the Company to serve as an executive director of the Company for a term of two years from 4 March 2024 to 3 March 2026, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Liu Mingqing entered into a service contract with the Company to serve as an executive director of the Company for a term of two years from 27 March 2024 to 26 March 2026, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Mr. Sun Weiwei had been appointed by the Company to serve as an executive director of the Company for a term of one year from 5 September 2023 to 4 September 2024, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

TERMS OF NON-EXECUTIVE DIRECTORS

Each of the independent non-executive directors is appointed for a fixed term of one or two years as follows:

Name of directors	Term period
Ms. Wei Yu	19 June 2023 to 18 June 2024
Mr. Wang Xiao Ning	1 June 2021 to 31 May 2023
Ms. Chen Yuxin	13 May 2024 to 12 May 2026

DIRECTORS' INTERESTS IN CONTRACTS

Save for transactions as disclosed in note 43 to the consolidated financial statements, no director had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

Report of The Directors

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2023, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures ordinance (the “SFO”)) which had 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 in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities transactions by Directors of Listed Companies (the “Model Code”) contained in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) to be notified to the Company and the Stock Exchange were as follows:

Long position in the shares of the Company

Name of director	Number or attributable number of shares held or short positions	Capacity			Approximate percentage or attributable percentage of shareholdings
		Interest of controlled corporation	Interest of child under 18 or spouse	Beneficial owner	
Zhang Qijun	1,340	–	–	1,340	0.001%
Liu Mingqing	184,000	–	–	184,000	0.095%

Save as disclosed above and under the heading “Substantial Shareholders” below, none of the directors of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2023.

Save as disclosed above, as at 31 December 2023, none of the directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code contained in the Listing Rules to be notified to the Company and the Stock Exchange.

Report of The Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' Interests in Shares" above and "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme which became effective on 31 May 2013 and being refreshed on 15 May 2019, had been expired on 31 May 2023.

The following table discloses movements in the outstanding share options granted under the Share Option Schemes during the year:

Grantee	Date of grant	Number of share options			Exercise price HK\$	Exercise Period
		Outstanding at 1 January 2023	Cancelled during the year	Outstanding at 31 December 2023		

N/A

SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 31 December 2023, the persons or companies (other than a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Report of The Directors

Long position in the shares of the Company

Name of shareholder	Number of shares or underlying approximate shareholding	Capacity		
		Beneficial owner	Interest of child under 18 or spouse	Interest of controlled corporation
N/A	–	–	–	–

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to date of this report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, pursuant to the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interest of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the directors, there is sufficient public float of more than 25% of the Company's issued shares as at the date of this report.

CORPORATE GOVERNANCE

Information on the Company's corporate governance practices is set out in the Corporate Governance Report on pages 22 to 27 of this annual report.

INDEPENDENT CONFIRMATION

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

Report of The Directors

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group respects the environment and is committed to minimising its carbon footprints as a socially responsible enterprise in Hong Kong. Carbon footprint is defined as the total amount of direct and indirect emissions of Green House Gases (GHGs) expressed in terms of the equivalent amount of Carbon Dioxide of (CO₂) emission. Non-hazardous wastes produced from the Group mainly consist of used paper such as office papers and marketing materials. To minimise the impact of carbon footprints on the environment, the Group implements the following practices to use paper efficiently:

- duplex printing is set as the default mode for most network printers;
- employees are reminded to practice photocopying wisely;
- employees are encouraged to use both sides of paper;
- paper waste is recycled instead of being directly disposed of in landfills;
- paper is separated from other waste for easier recycling; and
- boxes and trays are placed beside photocopiers as containers to collect single-sided paper for reuse purpose.

Electricity consumption is identified as having an adverse impact on the environment and natural resources. A typical commercial building uses more energy for lighting than for other electric equipment. The Group is determined to reduce energy consumption and implement conservation practices to reduce the effect of carbon footprint. Air conditioning and light zone arrangements reduce unnecessary electricity usage; employees enforce good practices in maintenance of lighting and electric equipment to ensure they are kept in good and proper condition to maximise efficiency.

The Group will review its environmental practices periodically and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2023, there was no evidence of non-compliance with the relevant laws and regulations that have significant impacts on the Group as far as the Board is aware.

Relationship with Employees, Customers and Suppliers

The Group recognises the accomplishment of the employees by providing comprehensive benefit package, career development opportunities and internal training appropriate to individual needs. The Group provides a healthy and safe workplace for all employees. No strikes and cases of fatality due to workplace accidents are found during the year under review.

The Group encompasses working relationships with suppliers to meet our customers' needs effectively and efficiently. The departments work closely to make sure the tendering and procurement process is conducted in an open, fair and just manner. The Group's requirements and standards are also well communicated to suppliers before the commencement of a project.

The Group values the views and opinions of all customers through various means and channels, including usage of business intelligence to understand customer trends and needs and conduct regular analysis on customer feedback. The Group also conducts comprehensive tests and checks to ensure that only quality products and services are offered to the customers.

During the year ended 31 December 2023, there was no circumstances of any event between the Group and its employees, customers and suppliers which would have a significant impact on the Group's business and on which the Group's success depends.

Report of The Directors

PERMITTED INDEMNITY

The Company's Bye-Laws provides that every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, by reason of any act done in or about the execution of his duty, or supposed duty; and none of them shall be answerable for the acts, receipts, neglects or for any other loss, misfortune or damage which may happen in the execution of his duty, or in relation thereto; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

Dividend policy

The Company has adopted an updated dividend policy paying on a half-yearly basis ("**Dividend Policy**"), pursuant to which the Company endeavors to maintain stable dividend return with progressive increment and special dividend, so as to offer the utmost in rewarding the shareholders of the Company.

In deciding whether to propose or declare a dividend and in determining the dividend amount, the Board shall take into account projected cash-flow and retained profit requirement for future development of the Company, inter alia:

- financial performance and operating results;
- effective allocation of distributable retained earnings and reserves;
- maintaining regularity in pay-out frequency, amount and/or ratio; and
- other factors it may deem relevant at such time.

The dividend to be proposed or declared shall be determined at the sole discretion of the Board and is subject to the restrictions under the Bye-Laws of the Company and all applicable laws and regulations.

The Company will review the Dividend Policy from time to time and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy. The Dividend Policy shall not constitute a legally binding commitment by the Company and there is no assurance that dividends will be paid in any particular amount in any given period.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in note 47 to the consolidated financial statements.

LITIGATIONS

Details of the litigations are set out in note 45 to the consolidated financial statements.

AUDITOR

KTC Partners CPA Limited was appointed as auditor of the Company at the AGM held on 15 June 2023. And a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming AGM. There have been no changes of auditor in the past three years.

On behalf of the Board

Zhang Qijun

Chairman

Hong Kong, 28 March 2024

Corporate Governance Report

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to ensuring high standards of corporate governance. During the Year, the Company has complied with all the applicable code provisions set out in the Corporate Governance Code contained in Appendix 14 “Corporate Governance Code and Corporate Governance Report” to the Listing Rules, except for the deviation from code provisions A.6.7 of the Corporate Governance Code as described below.

Code Provision A.6.7

Under code provision A.6.7 of the Corporate Governance Code, the independent non-executive Directors should attend the general meetings. However, the independent non-executive Directors, Mr. Kong Chun Wing, Ms. Chen Yuxin and Mr. Wang Xiao Ning, had other important engagements at the same time and did not attend the annual general meeting of the Company held on 15 June 2023.

DIRECTORS’ SECURITIES TRANSACTIONS

The Group has adopted the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the year ended 31 December 2023.

BOARD OF DIRECTORS

As at 31 December 2023, the Board currently comprises three executive directors and three independent non-executive directors. For a director to be considered independent, the Board follows the requirements set out in the Listing Rules and must determine that the director does not have any direct or indirect material relationship with the Group. Under the Company’s Bye-Laws, every director is subject to retirement by rotation at least once every three years and their re-election are subject to a vote by the shareholders. All independent non-executive directors are appointed for a specific terms of two years.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group’s strategic objectives. Day-to-day management of the Group’s business is delegated to the executive directors. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group’s overall strategic and financial policies including dividend policy, material contracts and major investments. All Board members have separate and independent access to the Group’s senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group’s expense upon their request.

As at the date of this report, the Company appointed three independent non-executive directors, namely, Ms. Wei Yu, Mr. Wang Xiao Ning and Ms. Chen Yuxin who have appropriate and sufficient experiences and qualifications to carry out their duties so as to protect the interests of shareholders.

The Company hereby confirms that it had arranged for appropriate insurance cover in respect of legal actions against directors before the year 2019. However, since year 2019, the Company has not yet made this insurance arrangement as the Board considered that no suitable director liability insurance could be identified on the market which could provide adequate suitable security to the Directors.

Corporate Governance Report

Board meets regularly to review the financial and operating performance of the Group, to make important decisions and to approve future strategies. Seven Board meetings were held in 2023. Individual attendance of each director at the Board meetings, the Audit Committee meetings, the Nomination Committee meeting, the Remuneration Committee meetings and the general meetings of the Company during 2023 is set out below:

Director	Attendance/number of meetings				General meeting
	Board	Audit committee	Nomination committee	Remuneration committee	
Executive directors					
Mr. Zhang Qijun (<i>Chairman</i>)	7/7	N/A	2/2	N/A	1/2
Mr. Liu Mingqing	5/7	N/A	N/A	N/A	1/2
Ms. Lai Yee Man (resigned on 17 April 2023)	N/A	N/A	N/A	N/A	N/A
Mr. Sun Weiwei (appointed on 5 September 2023)	N/A	N/A	N/A	N/A	N/A
Independent non-executive directors					
Ms. Wei Yu (appointed on 19 June 2023)	1/7	1/2	N/A	N/A	N/A
Mr. Wang Xiao Ning	7/7	2/2	2/2	N/A	N/A
Mr. Kong Chun Wing (resigned on 15 June 2023)	3/7	1/2	N/A	N/A	N/A
Ms. Chen Yuxin	N/A	N/A	N/A	N/A	N/A

To implement the strategies and plans adopted by the Board effectively, directors and senior management meet regularly to review the performance of the businesses of the Group and make financial and operational decisions.

Biographical details of the directors, together with information about the relationship among them, can be found under the Profile of Directors and Senior Management section on pages 12 to 13 of this annual report.

CHAIRMAN

The Group has appointed Mr. Zhang Qijun as the Chairman. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities.

REMUNERATION COMMITTEE

The Remuneration Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, considering factors such as salaries paid by comparable companies, time commitment and responsibilities of individuals. The terms of reference of the Remuneration Committee can be obtained from the Company's website.

Corporate Governance Report

During the year, the Remuneration Committee reviewed the remuneration policies and approved the salary of directors and senior management. The remuneration of each director is determined by the committee with reference to his/her duties and responsibilities with the Company. No executive director has taken part in any discussion about his own remuneration. No meeting was held by the Remuneration Committee in 2023. Two out of three of the committee members is independent non-executive director of the Company. Its members as at 31 December 2023 include:

Ms. Wei Yu — *Chairman*
Mr. Liu Mingqing
Mr. Wang Xiao Ning

Directors' remunerations for the year are disclosed in note 12 to the consolidated financial statements.

NOMINATION COMMITTEE

The Nomination Committee has clear terms of reference and is accountable to the Board. The principle role of the committee is to exercise the powers of the Board to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and make recommendations to the Board regarding any proposed change. The terms of reference of the Nomination Committee can be obtained from the Company's website.

The Board adopted a Board Diversity Policy in August 2013 setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. It endeavours to ensure that the Board has a balance of, amongst other factors, skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will be made on a merit basis, and candidates will be considered against a range of selection criteria, having regard for the benefits of diversity on the Board.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time. No meetings were held by the Nomination Committee in 2023. One out of two of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2023 include:

Mr. Zhang Qijun — *Chairman*
Mr. Wang Xiao Ning

AUDIT COMMITTEE

The Audit Committee has clear terms of reference and is accountable to the Board. The committee assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. The terms of reference of the Audit Committee can be obtained from the Company's website. Two meetings were held by the Audit Committee in 2023. All committee members are independent non-executive directors. Its members as at 31 December 2023 include:

Ms. Wei Yu — *Chairman*
Mr. Wang Xiao Ning
Ms. Chen Yuxin

The committee members possess diversified industry experience and the Chairman of the committee has appropriate professional qualifications and experience in accounting matters. During the year, the committee considered the external auditors' re-appointment and their projected audit fees, reviewed the interim and annual financial statements and reviewed the Group's risk management and internal control systems.

AUDITOR'S REMUNERATION

During the year, the Group has incurred auditor's remuneration of approximately HK\$2,419,000 which was paid/payable to the Company's existing auditor, KTC Partners CPA Limited.

Corporate Governance Report

COMPANY SECRETARY

Mr. Tam Tsz Ming, aged 51, was appointed as the company secretary of the Company on 14 June 2018. Mr. Tam hold a Bachelor Degree of Business Administration in Accounting from Hong Kong Metropolitan University (previously known as the Open University of Hong Kong). He also holds the Diploma in Legal Studies from HKU SPACE. Mr. Tam is a member of Hong Kong Institute of Certified Public Accountants and a member of Institute of Chartered Accountants in England and Wales. Mr. Tam has accumulated extensive working experience in the fields of auditing, accounting and financial management.

SHAREHOLDERS' RIGHTS

The Board may whenever it thinks fit call extraordinary general meetings. Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) because of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURE BY WHICH ENQUIRIES PUT TO THE BOARD

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong Branch Share Registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong or via email to info@kh381.com.

INVESTOR RELATIONS

The Company highly values its relationship with its shareholders and other stakeholders. It has put in place an effective corporate communication system which provides transparent, regular and timely public disclosures to its shareholders and other stakeholders. The main features of the system are as follows:

- The Company maintains a corporate website www.kh381.com on which comprehensive information about the Group, including core business, financial reports, public announcements, circulars and news of the Group, is disclosed. Shareholders can obtain corporate communication electronically via the Company's website.
- The Company establishes and maintains different communication channels with its shareholders and other stakeholders through annual reports, interim reports and other publication.
- AGM provides a useful forum for shareholders to exchange views with the Board. The respective chairmen of the Board and Audit, Remuneration and Nomination Committees (or in the absence of the chairmen of such Committees, another member of each Committee or failing this his duly appointed delegate) will endeavor to be available to answer questions raised by shareholders.
- Separate resolutions are proposed at general meetings for each substantially separate issue, including the election of individual Directors.
- Details of the proposed resolutions to be put forward at a general meeting are, where necessary or appropriate, included in a circular to the shareholders dispatched prior to the date of the relevant general meeting.
- All resolutions put to the vote of a general meeting are taken by poll. The poll results are published on the Stock Exchange's website www.hkexnews.hk and on the Company's website.

Corporate Governance Report

In addition, the Company has established the investor relations department with designated senior management for maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from shareholders and other stakeholders are dealt with in an informative and timely manner.

Shareholders and other stakeholders may write directly to the Company at its principal place of business in Hong Kong or via email to info@kh381.com for any enquiries. The shareholders' communication policy is available on the Company's website www.kh381.com under the "Investor Relations/Corporate Governance" section.

FINANCIAL REPORTING

The directors of the Company acknowledge their responsibility for preparing the Group's and the Company's financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies are being selected and applied consistently.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on pages 28 to 33 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the establishment, maintenance and review of the Group's internal control system to safeguard the assets of the Group and shareholder investments. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimises the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

During the year under review, the Board has engaged **MOSS Valuation & Advisory Limited** as independent consultant to undertake a review of the internal control system of the Group on material issues covering financial, operational and regulatory compliance controls and risk management function.

The Directors considered that the Group has implemented appropriate procedures for safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, segregation of duties and putting plans and routines into execution with appropriate authority and in compliance with the relevant laws and regulations.

The Company does not have an internal audit function for the year ended 31 December 2023. Taking into account the size and complexity of the operations of the Group and the potential costs of setting up an internal audit function, the Company considers that the existing organisation structure and the close supervision of the management could provide sufficient risk management and internal control for the Group. However, the Board will regularly review the need to set up an internal audit function or engage an independent professional service provider to review the Group's internal control and risk management system.

The Group adopts a risk management framework which comprises the following processes:

- Identify significant risk in the Group's operation environment and evaluate the impacts of those risks on the Group's business;
- Develop necessary measures to manage those risks; and
- Monitor and review the effectiveness of such measures.

Corporate Governance Report

The Group formulated the policies and procedures of risk management and internal control as follows:

- The Group established an organisational structure with clear operating and reporting procedures, lines of responsibility and delegated authority;
- Each operating subsidiary maintains internal controls and procedures appropriate to its structure whilst complying with the Group's policies, standards and guidelines;
- Relevant executive Directors and senior management have been delegated with specific accountability for monitoring the performance of designated business operating units;
- A systematic review of the financial and business processes in order to provide management on the adequacy and effectiveness of internal controls. Where weaknesses are identified in the system of internal controls, management will evaluate and take necessary measures to ensure that improvements are implemented; and
- Code of ethics are established and adhered to by all employees to ensure high standards of conduct and ethical values in all business practices.

The Board reviewed that the risk management and internal control system adopted by the Group for the year ended 31 December 2023 and considered that it was effective.

DISSEMINATION OF INSIDE INFORMATION

The Company is committed to a consistent practice of timely, accurate and sufficiently detailed disclosure of material information about the Group. The Company has adopted a Policy on Disclosure of Inside Information which sets out the obligations, guidelines and procedures for handling and dissemination of inside information. With those guidelines and procedures, the Group has management controls in place to ensure that potential inside information can be promptly identified, assessed and escalated for the attention of the Board to decide about the need for disclosure.

Independent Auditor's Report



**TO THE SHAREHOLDERS OF
KIU HUNG INTERNATIONAL HOLDINGS LIMITED**

僑雄國際控股有限公司

(Incorporated in the Cayman Islands with limited liability and continued in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Kiu Hung International Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 34 to 137, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSA**s”) 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

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.

1. Provision for expected credit losses ("ECL") of trade receivables

Refer to notes 25 and 37(b) to the consolidated financial statements.

As at 31 December 2023, the Group had gross trade receivables of approximately HK\$51,127,000 and accumulated provision for impairment of approximately HK\$11,661,000.

ECL for trade receivables are based on management's estimate of the lifetime ECL to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgment.

We have identified ECL assessment of trade receivables as a key audit matter because assessing ECL of trade receivables is a subjective area which requires the exercise of significant judgment by management and uses of estimates.

Our procedures in relation to management's ECL assessment on trade receivables included:

- Obtained an understanding of the key controls over management's assessment of the impairment of trade receivables;
- Evaluating techniques and methodology adopted by the management in the ECL model against the requirements of HKFRS 9;
- Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances;
- Inquiring management for the status of each of the material trade receivables past due as at year end and corroborating explanations from management with supporting evidence, such as understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers; and
- Checking, on a sample basis, the ageing profile of the trade receivables as at 31 December 2023 to the underlying financial records.

Independent Auditor's Report

2. Impairment assessment of investments in associates

Refer to note 20 to the consolidated financial statements.

Included in investments in associates in the consolidated statement of financial position as at 31 December 2023 are investments in Multijoy Development Limited ("**Multijoy**"), Anhui Fu Lao Wine Development Company Limited ("**Anhui Fu Lao**") and USO Management & Holding Co. Ltd. ("**USO**") with carrying amounts of approximately HK\$135,100,000, HK\$93,102,000 and HK\$16,326,000 respectively. For the year ended 31 December 2023, no impairment loss was recognised for Multijoy and Anhui Fu Lao and an impairment loss of approximately HK\$35,814,000 was recognised for USO.

The Group tested the carrying amounts of the investments in Multijoy, Anhui Fu Lao and USO for impairment as the associates was loss making for the year ended 31 December 2023. We identified investments in associates as a key audit matter due to the balances of investments in these associates as at 31 December 2023 are material to the consolidated financial statements and the Group's impairment test involves the application of significant judgement and is based on assumptions and estimates made by management and independent professional valuers (the "**Valuer**").

Our audit procedures included, among others:

- Assessing the competence, independence and objectivity of the external valuers engaged by the Group;
- Challenging the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;
- Assessing the arithmetical accuracy of value-in-use and fair value less costs of disposal calculations;
- Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates); and
- Checking input data to supporting evidence.

3. Impairment assessment of goodwill

Refer to Note 18 to the consolidated financial statements.

As at 31 December 2023, the Group's reported goodwill amounted to approximately HK\$50,940,000.

Impairment of goodwill is assessed by management by comparing the recoverable amount and carrying amount of the relevant cash generating unit at the end of the reporting period. Significant judgement and assumptions were required by management of the Group in assessing the recoverable amount of those cash generating unit. The recoverable amount was determined with reference to the value in use of the relevant cash generating unit, which required significant assumptions on discount rates and growth rates in order to derive the net present value of the discounted future cash flow analysis.

Valuations prepared by the Valuer and management were obtained in respect of the value in use of the cash generating unit in order to support management's estimates.

We identified this area as a key audit matter as the carrying value of goodwill is significant to the consolidated financial statements and the management's impairment assessment of goodwill require the use of significant judgement and estimation.

Independent Auditor's Report

Our audit procedures, among others, included:

- Assessing the identification of the related cash generating unit;
- Assessing the arithmetical accuracy of the value in use calculations;
- Obtaining the discounted future cash flow analysis approved by the management and checking its mathematical accuracy;
- Engaging an independent external expert to assist us in assessing the Valuer's work;
- Evaluating the competence, capabilities and objectivity of the Valuer;
- Evaluating the appropriateness of the methodology and the reasonableness of the key assumptions adopted by the management and the Valuer including discount rate and growth rate;
- Testing the accuracy and evaluating the relevance of key inputs adopted in the discounted future cash flow model against historical performance of the Group, with reference to the future strategic plans of the Group in respect of the cash generating unit.

OTHER INFORMATION

The directors of the Company ("**Directors**") are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will 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 identified above when it becomes available 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 performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

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

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional 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.

Independent Auditor's Report

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

KTC Partners CPA Limited

Certified Public Accountants (Practising)

Chow Yiu Wah, Joseph

Audit Engagement Director

Practising Certificate Number P04686

Hong Kong, 28 March 2024

Consolidated Statement of Profit or Loss

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Revenue	5	383,923	420,904
Cost of sales		(218,116)	(263,884)
Gross profit		165,807	157,020
Other income	7	8,458	1,244
Other gains/(loss), net	7	8,975	4,856
Selling and distribution costs		(37,346)	(47,081)
Administrative expenses		(86,381)	(78,805)
Finance costs	8	(27,068)	(46,812)
Impairment loss under expected credit loss model, net	9	(27,454)	(355)
Impairment of investment in associates		(34,314)	–
Gain on extinguishment of financial liabilities by issue of ordinary shares	35(e)	28,355	–
Cancellation of promissory notes	30(a)	92,000	–
Share of results of associates		(21,958)	(19,460)
Profit/(loss) before income tax		69,074	(29,393)
Income tax expense	10	(3,373)	(9,108)
Profit/(loss) for the year	11	65,701	(38,501)
Profit/(loss) attributable to:			
– owners of the Company		37,213	(59,521)
– non-controlling interests		28,488	21,020
		65,701	(38,501)
Earnings/(loss) per share attributable to the owners of the Company		HK cents	HK cents (Restated)
Basic and diluted earnings/(loss) per share	14	39.06	(117.44)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

	2023 HK\$'000	2022 HK\$'000
Profit/(loss) for the year	65,701	(38,501)
Other comprehensive income/(loss):		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Surplus on revaluation of properties	8,258	11,760
Deferred tax effect on revaluation of properties	(1,363)	(1,940)
<i>Items that may be reclassified to profit or loss:</i>		
Exchange difference arising from translation of foreign operations	(13,070)	(7,662)
Share of exchange translation difference of associates	(7,095)	(22,319)
Other comprehensive loss for the year, net of tax	(13,270)	(20,161)
Total comprehensive income/(loss) for the year	52,431	(58,662)
Total comprehensive income/(loss) attributable to:		
— owners of the Company	25,729	(80,869)
— non-controlling interests	26,702	22,207
	52,431	(58,662)

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	107,820	93,934
Right-of-use assets	16	29,256	4,100
Investment properties	17	12,450	13,686
Goodwill	18	50,940	54,802
Other intangible assets	19	5,795	8,784
Investments in associates	20	246,969	310,336
Prepayments, deposits and other receivables	26	–	106
Deferred income tax assets	22	1,589	881
		454,819	486,629
Current assets			
Inventories	23	87,910	74,256
Biological assets	24	5,051	5,198
Trade and bills receivables	25	57,229	57,329
Prepayments, deposits and other receivables	26	53,369	157,469
Tax recoverable		36	–
Bank balances and cash	27	111,867	99,058
		315,462	393,310
Current liabilities			
Trade payables	28	22,115	15,037
Accruals and other payables	29	117,517	159,764
Income tax payable		2,577	1,548
Promissory notes	30	–	164,820
Lease liabilities	31	723	1,338
Borrowings	32	134,245	101,794
Contingent consideration payables	33	–	29,058
Amount due to an associate		172	177
		277,349	473,536
Net current assets/(liabilities)		38,113	(80,226)
Total assets less current liabilities		492,932	406,403

Consolidated Statement of Financial Position

As at 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Non-current liabilities			
Lease liabilities	31	1,846	2,602
Borrowings	32	7,572	7,949
Deferred income tax liabilities	22	12,927	19,631
Convertible bonds	34	130,611	91,213
		152,956	121,395
Net assets			
		339,976	285,008
Equity			
Share capital	35	9,667	9,206
Reserves		204,541	176,528
Equity attributable to owners of the Company			
		214,208	185,734
Non-controlling interests		125,768	99,274
Total equity			
		339,976	285,008

The consolidated financial statements on pages 34 to 137 were approved and authorised for issue by the board of directors on 28 March 2024 and are signed on its behalf by:

Zhang Qijun
Director

Liu Mingqing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Attributable to owners of the Company											
		Share capital	Share premium	Statutory surplus	Contributed surplus	Foreign currency translation reserve	Property revaluation reserve	Fair value reserve for financial assets at FVTOCI	Accumulated losses	Total	Non-controlling interests	Total equity
	Notes	HK\$'000	HK\$'000 Note (a)	HK\$'000 Note (b)	HK\$'000 Note (c)	HK\$'000 Note (d)	HK\$'000 Note (e)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As 1 January 2022		11,478	1,650,259	2,961	303	58,377	70,543	55,383	(1,714,177)	135,127	77,067	212,194
(Loss)/profit for the year		-	-	-	-	-	-	-	(59,521)	(59,521)	21,020	(38,501)
Other comprehensive (loss)/income for the year		-	-	-	-	(31,168)	9,820	-	-	(21,348)	1,187	(20,161)
Transfer to statutory surplus		-	-	10,310	-	-	-	-	(10,310)	-	-	-
Capital reorganisation	35(b)	(9,183)	-	-	-	-	-	-	1,223	(7,960)	-	(7,960)
Issue of shares from rights issue	35(c)	6,911	132,525	-	-	-	-	-	-	139,436	-	139,436
At 31 December 2022 and 1 January 2023		9,206	1,782,784	13,271	303	27,209	80,363	55,383	(1,782,785)	185,734	99,274	285,008
Profit for the year		-	-	-	-	-	-	-	37,213	37,213	28,488	65,701
Other comprehensive (loss)/income for the year		-	-	-	-	(18,379)	6,895	-	-	(11,484)	(1,786)	(13,270)
Disposal of a subsidiary		-	-	-	-	(72)	-	-	72	-	(208)	(208)
Transfer to statutory surplus		-	-	5,019	-	-	-	-	(5,019)	-	-	-
Loan capitalisation	35(e)	461	2,284	-	-	-	-	-	-	2,745	-	2,745
At 31 December 2023		9,667	1,785,068	18,290	303	8,758	87,258	55,383	(1,750,519)	214,208	125,768	339,976

Notes:

- Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.
- In accordance with the relevant regulations of the People's Republic of China (the "PRC"), the subsidiaries of the Group registered in the PRC are required to transfer a certain percentage of the profit after tax, if any, to a statutory reserve. Subject to certain restrictions as set out in the relevant regulations and the articles of association of these PRC subsidiaries, the statutory reserve may be used to offset the accumulated losses, or for capitalisation as paid-up capital of the subsidiaries.
- The contributed surplus of the Group represents the excess of the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the group reorganisation prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited over the nominal value of Company's shares issued in exchange thereof.
- The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3.2 to the consolidated financial statements.
- The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings in note 3.2 to the consolidated financial statements.

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/(loss) before income tax		69,074	(29,393)
Adjustments for:			
Amortisation of other intangible assets	19	2,790	21,912
Depreciation of property, plant and equipment	15	10,690	10,415
Depreciation of right-of-use assets	16	2,260	2,174
Impairment loss under expected credit loss model, net	9	27,454	355
Impairment of investment in associates		34,314	–
Gain on extinguishment of financial liabilities by issue of ordinary shares	35(e)	(28,355)	–
Cancellation of promissory notes	30(a)	(92,000)	–
Fair value loss/(gain) on investment properties	17	989	(1,915)
Fair value change on contingent consideration payables	33	(5,005)	(12,271)
Fair value change on convertible bonds — derivative component	34	(112)	(168)
Interest expenses		27,068	46,812
Interest income		(244)	(145)
Write-off of property, plant and equipment		73	443
(Reversal of write-down)/write-down of inventories		(1,259)	146
Gain on disposal of subsidiary		(589)	–
Share of results of associates		21,958	19,460
Operating results before movements in working capital		69,106	57,825
Changes in inventories		(14,425)	(35,582)
Changes in biological assets		–	(5,198)
Changes in trade receivables		9,366	(22,896)
Changes in bills receivables		(10,655)	1,157
Changes in prepayments, deposits and other receivables		(14,849)	(34,445)
Changes in trade payables		7,373	(1,642)
Changes in accruals and other payables		4,169	(84,337)
Changes in amount due to an associate		(5)	–
Cash generated from/(used in) operations		50,080	(125,118)
Interest paid		(11,463)	(6,527)
Income taxes paid		(11,074)	(15,055)
Net cash from/(used in) operating activities		27,543	(146,700)

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Investing activities			
Interest received		244	145
Purchase of property, plant and equipment		(17,303)	(326)
Purchase of other intangible assets		–	(2,445)
Net cash used in investing activities		(17,059)	(2,626)
Financing activities			
Bank and other loans raised		21,883	13,969
Repayment of bank and other loans		(9,556)	(21,854)
Proceeds from issue of shares from rights issue	35(c)	–	139,436
Repayment of promissory notes		(5,189)	(85,801)
Repayment of principal portion of lease liabilities	16	(1,491)	(2,334)
Net cash from financing activities		5,647	43,416
Net increase/(decrease) in cash and cash equivalents		16,131	(105,910)
Cash and cash equivalents at the beginning of the year		99,058	201,113
Effect of foreign exchange rate changes		(3,322)	3,855
Cash and cash equivalents at end of the year		111,867	99,058

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

1. GENERAL INFORMATION

Kiu Hung International Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company and continued in Bermuda with limited liability under the Companies Act 1981 of the Bermuda. The address of its registered office is Sofia House, 3rd Floor, 48 Church Street, Hamilton HM12, Bermuda. The address of its principal place of business is Flat E, 20/F., Lucky Plaza, 315–321 Lockhart Road, Wanchai, Hong Kong. The Company’s shares are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in (i) the manufacturing and trading of toys and gifts items, (ii) development, processing and manufacturing of Chinese herbs products and (iii) the investment in various businesses including fruit plantation, leisure and culture.

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is also the functional currency of the Company. The directors of the Company (“**Directors**”) consider HK\$ is the most appropriate presentation currency for the users of the Group’s financial statements as the Company is listed on the Stock Exchange. The functional currency of the Company’s major subsidiaries in the People’s Republic of China (“**PRC**”) and the United States of America (“**USA**”) is Renminbi (“**RMB**”) and United States dollars (“**US\$**”) respectively.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“**HKFRSs**”)

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

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 3.2 to the consolidated financial statements. In accordance with the guidance set out in the amendments, accounting policy information that is standardised information, or information that only duplicates or summarises the requirements of the HKFRSs, is considered immaterial accounting policy information and is no longer disclosed in the notes to the consolidated financial statements so as not to obscure the material accounting policy information disclosed in the notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and 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 and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
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.

Except for the new and amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) (the “2020 Amendments”) and Amendments to HKAS 1 Non-current Liabilities with Covenants (the “2022 Amendments”)

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity’s own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.
- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity’s right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if an entity classifies liabilities arising from loan arrangements as non-current when the entity’s right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(continued)*

New and amendments to HKFRSs in issue but not yet effective *(continued)*

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) (the “2020 Amendments”) and Amendments to HKAS 1 Non-current Liabilities with Covenants (the “2022 Amendments”) (continued)

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 Amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group’s outstanding liabilities as at 31 December 2023, including convertible bonds and the related terms and conditions stipulated in the agreements between the Group and the relevant lenders/convertible instrument holders, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group’s liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, and include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (“**Listing Rules**”) and by the Hong Kong Companies Ordinance. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users.

The Directors 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

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 from the date the Group gains control until the date when the Group ceases to control the subsidiary.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash generating units).

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

The group applies HKFRS 9, including the impairment requirements, to long-term interests in an associate to which the equity method is not applied and which form part of the net investment in the investee. Furthermore, in applying HKFRS 9 to long-term interests, the group does not take into account adjustments to their carrying amount required by HKAS 28 (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with HKAS 28).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in Hong Kong dollars ("**HK\$**"), which is the Company's functional and presentation currency.

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

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

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

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

(c) Translation on consolidation

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

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- (iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Property, plant and equipment

Land and buildings comprise mainly factories, offices and warehouse. Land and buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Roadings 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. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Revaluation increases of land and buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the property revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the property revaluation reserve are charged against the property revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued land and building, the attributable revaluation increases remaining in the property revaluation reserve is transferred directly to accumulated losses.

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Property, plant and equipment *(continued)*

Depreciation is recognised so as to write off the cost, or revalued amount of assets, less their residual values over their estimated useful lives using the straight-line method. The principal annual rates are as follows:

Leasehold land and buildings	Over the lease terms
Roadings	Over the lease terms
Farming plant and equipment	20 years with 5% residual value
Leasehold improvements	Shorter of 10 years or over the lease terms
Machineries	5 to 10 years
Moulds	2 to 10 years
Furniture, fixtures and equipment	3 to 10 years
Motor vehicles	4 to 6 years

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

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.

Investment properties

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment properties are initially measured at its cost, including any directly attributable expenditure.

Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income. Gains or losses arising from changes in fair value of the investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Intangible assets *(continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The principal annual rates of amortisation of intangible assets are as follows:

Trademark	:	99 years
Customer contracts	:	2 to 4 years
Forestry rights	:	29 to 36 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Leases

(a) Definition of 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.

For contracts entered into or modified on or after the date of initial application of HKFRS 16, or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Leases *(continued)*

(b) The Group as a lessee

Allocation of consideration to components of a contract

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

(i) 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 or another systematic basis over the lease term.

(ii) Right-of-use assets

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.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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 principal annual rates are as follows:

Leased properties	Over the lease term
Motor vehicle	4 to 5 years

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

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

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Leases *(continued)*

(b) The Group as a lessee (continued)

Allocation of consideration to components of a contract *(continued)*

(iii) Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("**HKFRS 9**") and initially measured 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.

(iv) 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 measured 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.

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 rates following a market rent review, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Leases *(continued)*

(c) The Group as a lessor

(i) Classification and measurement of leases

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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

(ii) Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Biological assets

Biological assets comprise fresh herb bunches and herbs before harvest in leased farming lands and are classified as current assets if they could be harvested within one year.

Biological assets are stated at fair value less costs to sell from initial measurement up to the point of harvest, except where fair value cannot be measured reliably due to unavailability of quoted market prices and no reliable alternative estimates exist to determine fair value, in which case the assets are held at cost less accumulated depreciation and impairment losses. Once the fair value becomes reliably measurable, the biological assets are measured at fair value less costs to sell and changes in fair value are recognised in the consolidated statement of profit or loss.

Costs to sell include the incremental selling costs, including auctioneers' fees, commission paid to brokers and dealers and estimated costs of transport to the market but excludes finance costs and income taxes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. For Chinese herbs products, cost is determined using a first-in, first-out method. For toys and gifts items, cost is determined using a weighted average method. The cost of finished goods and work in progress comprises costs of raw materials and direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value represents the estimated selling price in the ordinary course of business, 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.

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 market place.

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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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.

(a) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Financial instruments *(continued)*

(a) 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. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset 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.

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and bills receivables, deposits and other receivables and bank balances and cash) which are subject to impairment assessment under HKFRS 9. 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. Assessments 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Financial instruments *(continued)*

(a) Financial assets (continued)

Impairment of financial assets subject to impairment assessment under HKFRS 9 (continued)

(i) 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.

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, the credit default swap prices for the debtor;
- 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;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that result 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.

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

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Financial instruments *(continued)*

(a) Financial assets *(continued)*

Impairment of financial assets subject to impairment assessment under HKFRS 9 (continued)

(ii) 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.

(iii) Credit-impaired financial assets

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

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

(iv) 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 two years 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Financial instruments *(continued)*

(a) Financial assets (continued)

Impairment of financial assets subject to impairment assessment under HKFRS 9 (continued)

(v) 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. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience and forward-looking information that is available without undue cost or effort.

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.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward-looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Financial instruments *(continued)*

(a) Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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 equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve for financial assets at FVTOCI is not reclassified to profit or loss, but is transferred to accumulated losses.

(b) Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified either as 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 Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is held for trading if:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Financial instruments *(continued)*

(b) Financial liabilities and equity (continued)

Financial liabilities at FVTPL *(continued)*

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

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

For financial liabilities that are designated as at FVTPL, the amount of changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible bonds, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability.

Financial liabilities at amortised cost

Financial liabilities including trade payables, accruals and other payables, amount due to an associate, borrowings and lease liabilities are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Financial instruments *(continued)*

(b) Financial liabilities and equity (continued)

Convertible bonds

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible bonds is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible bonds using the effective interest method.

Derecognition of financial liabilities

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.

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (ie the basis immediately preceding the change).

(c) Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

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 value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Revenue from contracts with customers

Information about the Group's accounting policies relating to contracts with customers is provided in Note 5.

Employee benefits

(a) Employee leave entitlements

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

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

(b) Pension obligations

In Hong Kong

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

In PRC

The Group also participates in a defined contribution retirement scheme organized by the government in the PRC. The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Borrowing costs

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

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 income 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. In addition, deferred tax liabilities are not recognised if the temporary difference arise from the initial recognition of goodwill.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Taxation *(continued)*

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

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

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, except for freehold land, which is always presumed to be recovered entirely through sale.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 "Income Taxes" requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(continued)*

3.2 Material accounting policy information *(continued)*

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives 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, right-of-use assets, and intangible 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.

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 a 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, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

(a) *Deferred tax for investment properties*

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

For the purposes of measuring deferred tax for investment properties in Hong Kong that are measured using the fair value model, the Directors have reviewed the Group's investment property in Hong Kong and concluded that the Group's investment properties in Hong Kong are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax for investment properties in Hong Kong, the directors have adopted the presumption that investment properties in Hong Kong measured using the fair value model are recovered through sale.

(b) *Significant influence over USO Management & Holding Co. Limited ("USO")*

Note 20(d) describes that USO is an associate of the Group as the Group has 47% ownership interest and voting rights in USO. The Group has a 47% ownership in USO; the other 53% of shareholdings are owned by two investors that are unrelated to the Group.

The Directors assessed whether the Group has control over USO based on whether the Group has the practical ability to direct the relevant activities of USO unilaterally. In making the judgement, the Directors considered the Group's absolute size of holding in USO and the relative size of and dispersion of the shareholdings owned by the other shareholders. After assessment, the Directors concluded that the Group does not have sufficiently dominant voting interest to direct the relevant activities of USO and therefore the Group does not have control over USO.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty

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

(a) Fair values of investment properties, leasehold land and buildings

In making its estimates, the Group considers the information from the valuations of investment properties (note 17) and leasehold land and buildings (note 15) performed by an external professional valuer using the market approach. Had the Group used different valuation techniques, the fair value of the investment properties and leasehold land and buildings would be different and thus may have an impact on the consolidated financial statements.

At 31 December 2023, the fair values of investment properties and leasehold land and buildings would change by approximately HK\$1,245,000 (2022: HK\$1,369,000) and approximately HK\$6,440,000 (2022: HK\$6,320,000) respectively if the market values of comparable properties or the unobservable inputs adopted under the valuation approach differ by 10% from the Group's estimates.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions. The Group will reassess the estimates by the end of each reporting period. The carrying amount of inventories at 31 December 2023 was approximately HK\$87,910,000 (2022: HK\$74,256,000). During the year ended 31 December 2023, the Group recognised reversal of write-down of finished goods of approximately HK\$1,259,000 (2022: write-down of approximately HK\$146,000) to net realisable value.

(c) Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on aging of trade receivables in groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At the end of each reporting period, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit-impaired are assessed for ECL individually. At 31 December 2023, the carrying amount of the trade receivables and accumulated impairment loss under expected credit loss model amounted to approximately HK\$39,466,000 and HK\$11,661,000 respectively (2022: HK\$50,221,000 and HK\$10,700,000 respectively).

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 25 and 37(b).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

(d) Current and deferred income taxes

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

Deferred income tax assets relating to certain temporary difference and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(e) Estimated impairment of investments in associates

As at 31 December 2023, in view of significant losses incurred by the associates, the Group performed impairment assessment on investments in associates. Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the relevant associates which is the higher of value-in-use and fair value less costs of disposal. The value-in-use calculation requires the management of the Group to estimate the present value of the estimated cash flows expected to arise from dividends to be received from the associates and the proceeds from the ultimate disposal of the investment taking into account of factors such as discount rate. The fair value less costs of disposal calculation requires the management of the Group to estimate the present value of the expected future economic benefits to be derived from the major assets of the associates based on market data. In cases where the actual cash flows or future economic benefits are less or more than expected, or change in facts and circumstances which result in revision of future cash flows estimation or discount rate, a material reversal or further recognition of impairment may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

As at 31 December 2023, the carrying amount of the investments in associates amounted to approximately HK\$246,969,000 (2022: HK\$310,336,000), after taking into account impairment of approximately HK\$34,314,000 (2022: Nil) recognised in profit or loss during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

(f) *Estimated impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss or further impairment loss may arise.

As at 31 December 2023, the carrying amount of goodwill was approximately HK\$50,940,000 (2022: HK\$54,802,000) (net of accumulated impairment loss of Nil (2022: Nil)). Details of the recoverable amount calculation are disclosed in note 18.

5. REVENUE

(a) *Disaggregation of revenue from contracts with customers*

	2023 HK\$'000	2022 HK\$'000
Sales of toys and gifts items	262,377	293,042
Sales of Chinese herbs products	121,546	127,862
	383,923	420,904
By revenue source		
<i>Manufacturing of goods items</i>		
— Toys and gifts items	135,940	141,882
— Chinese herbs products	121,546	127,862
<i>Trading of goods items</i>		
— Toys and gift items	126,437	151,160
	383,923	420,904
<i>Timing of revenue recognition</i>		
At point in time	383,923	420,904

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. REVENUE *(continued)*

(b) Performance obligations for contracts with customers

Revenue from (1) sales of toys and gifts items and (2) sales of Chinese herbs products are recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when to sell the goods, bears the risks of obsolescence and loss in relation to the goods. Invoices are usually payable within 90 days and 120 days for sales of toys and gifts items and sales of Chinese herbs products respectively.

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for toys and gifts items and Chinese herbs products such that the above information does not include information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of toys and gifts items and Chinese herbs products that had an original expected duration of one year or less.

6. OPERATING SEGMENT INFORMATION

For the year ended 31 December 2023 and 2022, the Group has six reportable and operating segments as follows:

Exploration	—	Exploration of natural resources
Toys and gifts items	—	Manufacturing and trading of toys and gifts items
Fruit plantation	—	Investment in business related to fruit plantation
Leisure	—	Investment in the PRC outbound tourism and tea and wine products related business through associates of the Group
Culture	—	Trading of ceramic items
Chinese Herbs	—	Development, processing and manufacturing of Chinese Herbs

The Group's reportable and operating segments are strategic business units that offer different products and services. They are managed separately because each business has different economic characteristics.

Segment results do not include corporate finance costs, fair value gain on convertible bonds — derivative component, gain on extinguishment of financial liabilities by issue of shares, cancellation of promissory notes, other corporate income and expenses and fair value change on contingent consideration payables. Segment assets do not include assets at corporate level. Segment liabilities do not include liabilities at corporate level, promissory notes and convertible bonds.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

6. OPERATING SEGMENT INFORMATION (continued)

(a) The segment results for the year ended 31 December 2023 and 2022:

	Exploration		Toys and gifts items		Fruit plantation		Leisure		Culture		Chinese herbs		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts included in the measure of segment profit or loss														
Year ended 31 December														
Revenue from external customers	-	-	262,377	293,042	-	-	-	-	-	-	121,546	127,862	383,923	420,904
Segment (loss)/profit	(11)	(50)	5,537	21,165	(31,786)	(16,378)	(45,383)	(18,242)	590	-	50,182	36,833	(20,871)	23,328
Unallocated amounts:														
Corporate finance costs													(25,417)	(45,840)
Fair value gain on convertible bonds – derivative component													112	168
Gain on extinguishment of financial liabilities by issue of shares													28,355	-
Cancellation of promissory notes													92,000	-
Other corporate income and expenses													(13,483)	(28,428)
Fair value change on contingent consideration payables													5,005	12,271
Profit/(loss) for the year													65,701	(38,501)

Notes:

- (i) There were no inter-segment sales during the years.

(b) Segment assets:

	Exploration		Toys and gifts items		Fruit plantation		Leisure		Culture		Chinese herbs		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December														
Segment assets	2	13	234,889	220,795	162,044	200,803	95,909	206,140	-	3,522	277,029	233,144	769,873	864,417
Unallocated corporate assets														
Bank balances and cash													72	66
Prepayments, deposits and other receivables													336	15,456
Total assets													770,281	879,939

(c) Segment liabilities:

	Exploration		Toys and gifts items		Fruit plantation		Leisure		Culture		Chinese herbs		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December														
Segment liabilities	(91)	(94)	(175,461)	(165,717)	(1,005)	(4,135)	(14,809)	(15,087)	-	(4,332)	(8,936)	(9,338)	(200,302)	(198,703)
Unallocated corporate liabilities														
Borrowings													(50,046)	(2,914)
Accruals and other payables													(49,346)	(108,223)
Promissory notes													-	(164,820)
Contingent consideration payables													-	(29,058)
Convertible bonds													(130,611)	(91,213)
Total liabilities													(430,305)	(594,931)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

6. OPERATING SEGMENT INFORMATION (continued)

(d) Other information:

	Exploration		Toys and gifts items		Fruit plantation		Leisure		Culture		Chinese herbs		Unallocated		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation and amortisation	-	-	(9,190)	(9,424)	-	-	-	-	-	-	(6,550)	(25,077)	-	-	(15,740)	(34,501)
Impairment/(reversal of impairment loss) of investment in an associate	-	-	-	-	(35,814)	-	1,500	-	-	-	-	-	-	-	(34,314)	-
Impairment loss under expected credit loss model, net	(11)	-	(1,895)	(260)	-	-	(24,026)	-	-	-	(354)	(95)	(1,168)	-	(27,454)	(355)
Reversal of write-down/(write-down) of inventories	-	-	1,259	(146)	-	-	-	-	-	-	-	-	-	-	1,259	(146)
Share of results of associates	-	-	-	-	899	(16,378)	(22,857)	(3,082)	-	-	-	-	-	-	(21,958)	(19,460)
Interest income	-	-	137	11	-	-	-	-	-	-	107	134	-	-	244	145
Interest expenses	-	-	(8,792)	(6,608)	-	-	-	-	-	-	(59)	(66)	(18,217)	(40,138)	(27,068)	(46,812)
Additions to segment non-current assets (note)	-	-	503	326	-	-	-	-	-	-	44,466	1,156	-	-	44,969	1,482
Investment in associates included in segment assets	-	-	-	-	151,426	190,185	95,543	120,151	-	-	-	-	-	-	246,969	310,336

Note:

Non-current assets included property, plant and equipment, right-of-use assets and goodwill.

(e) Geographical information:

	Revenue		Non-current assets	
	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The PRC (including Hong Kong)	122,084	128,796	435,322	420,683
The USA	261,792	291,620	1,581	1,710
Canada	47	33	-	-
European Union ¹	-	236	-	-
Samoa	-	-	16,327	63,355
Others ²	-	219	-	-
	383,923	420,904	453,230	485,748

Note: Non-current assets excluded deferred tax assets.

¹ European Union includes Spain, Italy, France and the United Kingdom.

² Others include South America, Asia and Mexico.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

6. OPERATING SEGMENT INFORMATION *(continued)*

(e) Geographical information: *(continued)*

The geographical analysis of revenue is based on location of customers which is determined based on the location at which the goods were delivered and information about the geographical analysis of non-current assets, which include goodwill, property, plant and equipment, right-of-use assets, investment properties, other intangible asset, investment in associates and prepayments, deposits and other receivables, is classified in accordance with geographical location of the assets or the associates' country of domicile at the end of the reporting period.

Revenue from customers of the corresponding years which contributed more than 10% of the Group's total revenue for the year represented approximately 59% of the total Group's revenue for the year ended 31 December 2023 (2022: 48%), which are shown as follows:

	2023 HK\$'000	2022 HK\$'000
Customer A ¹	98,818	119,572
Customer B ¹	76,442	81,498
Customer C ²	52,533	N/A ³

¹ Revenue from toys and gifts item.

² Revenue from Chinese herbs.

³ The corresponding revenue did not contribute 10% or more of the total revenue of the Group in the respective year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

7. OTHER INCOME/OTHER GAINS/(LOSS), NET

	2023 HK\$'000	2022 HK\$'000
Other income		
Bank interest income	244	145
Rental income from investment properties	385	84
Government grants (Note (i))	–	804
Written back of interest payable on promissory note (Note 26(a))	4,132	–
Written back of accrued expenses (Note (ii))	3,020	–
Others	677	211
	8,458	1,244
Other gains/(loss), net		
Fair value (loss)/gain on investment properties	(989)	1,915
Fair value gain on contingent consideration payables	5,005	12,271
Fair value gain on convertible bonds — derivative component	112	168
Gain on disposal of a subsidiary	589	–
Net foreign exchange gain/(loss)	4,258	(9,498)
	8,975	4,856

Notes:

- (i) During the year ended 31 December 2022, the Group recognised government grants of approximately HK\$629,000 (2023: nil) in respect of COVID-19-related subsidies which were granted to the Group under the Employment Support Scheme provided by the Hong Kong government. The remaining grants mainly related to subsidies in respect of their operations from governments which are either unconditional grants or grants with conditions having been satisfied (2023: nil).
- (ii) During the year ended 31 December 2023, the Group reviewed its accrued expenses which included provisions for legal and professional fees recognised based on mandates entered into years ago. The Group determined that the services set out in the respective mandates were not provided and no payments were requested by the respective professional parties. Thus, having reviewed these accruals the Directors concluded that the accrued expenses of approximately HK\$3,020,000 be written back in the year ended 31 December 2023 (2022: nil).

8. FINANCE COSTS

	2023 HK\$'000	2022 HK\$'000
Interest expenses on:		
Bank borrowings and overdrafts	793	786
Effective interest expense on convertible bonds	15,457	5,700
Other loans	8,925	21,093
Trust receipt loans	47	12
Interest on lease liabilities	148	174
Promissory notes	1,698	19,047
	27,068	46,812

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

9. IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET

	2023 HK\$'000	2022 HK\$'000
Impairment losses recognised on:		
— Trade receivables	1,190	164
— Other receivables	26,264	191
	27,454	355

10. INCOME TAX EXPENSE

	2023 HK\$'000	2022 HK\$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	973	451
Overprovision in prior year	(163)	—
	810	451
Current tax — Overseas		
Provision for the year	11,257	11,814
Total current tax	12,067	12,265
Deferred income tax credit	(8,694)	(3,157)
Income tax expense	3,373	9,108

Under the two-tiered profits tax rates regime, one of the subsidiaries of the Company is subject to Hong Kong Profits Tax at the rate of 8.25% for the first HK\$2 million of estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million. Other subsidiaries of the Company are subject to Hong Kong Profits Tax at the rate of 16.5% for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Taxations on overseas profits have been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

10. INCOME TAX EXPENSE (continued)

The reconciliation between the income tax expense and profit/(loss) before income tax multiplied by Hong Kong profits tax rate is as follows:

	2023 HK\$'000	2022 HK\$'000
Profit/(loss) before income tax	69,074	(29,393)
Tax at the applicable tax of 16.5% (2022: 16.5%)	11,397	(4,850)
Tax effect of income and gains that are not taxable	(17,227)	(3,647)
Tax effect of expenses that are not deductible	5,416	16,366
Tax effect of utilisation of tax losses not previously recognised	(396)	(1,619)
Tax effect of temporary differences not recognised	(4,163)	163
Tax effect of share of result of associates	3,623	3,211
Tax effect of unused tax losses not recognised	-	13
Tax effect of two-tiered profits rate regime	(165)	-
Tax reductions	(3)	-
Over provision for prior year	(163)	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	5,054	(529)
Income tax expense	3,373	9,108

Tax charge relating to each component of other comprehensive income/(loss) is as follows:

	2023			2022		
	Amount before tax HK\$'000	Tax HK\$'000	Amount after tax HK\$'000	Amount before tax HK\$'000	Tax HK\$'000	Amount after tax HK\$'000
Exchange differences on translating foreign operations	(13,070)	-	(13,070)	(7,662)	-	(7,662)
Surplus on revaluation of properties	8,258	(1,363)	6,895	11,760	(1,940)	9,820
Share of exchange translation difference of associates	(7,095)	-	(7,095)	(22,319)	-	(22,319)
Other comprehensive loss	(11,907)	(1,363)	(13,270)	(18,221)	(1,940)	(20,161)
Current tax		-			-	
Deferred income tax (note 22)		(1,363)			(1,940)	
		(1,363)			(1,940)	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

11. PROFIT/(LOSS) FOR THE YEAR

Profit/(loss) for the year has been arrived after charging:

	2023 HK\$'000	2022 HK\$'000
Advertising and promotional costs*	5,235	4,195
Amortisation of other intangible assets, included in		
– Cost of sales	2,778	21,827
– Selling and distribution costs	12	12
– Administrative expenses	–	73
Auditor's remuneration		
– Provision for the year	2,428	2,547
– Over-provision in previous years	(9)	–
Cost of inventories recognised as expense (note)	215,338	242,057
Cost of materials consumed	164,500	192,152
Depreciation of property, plant and equipment, included in		
– Cost of sales	1,835	2,111
– Administrative expenses	8,855	8,304
Depreciation of right-of-use assets		
– Cost of sales	922	–
– Administrative expenses	1,338	2,174
Expense relating to short-term leases	5,750	4,611
Write-off of property, plant and equipment, included in administrative expenses	73	443
Legal and professional fees	3,045	3,806
Research and development costs*	5,429	5,426
Sales Commission*	6,032	7,493
Staff costs (including directors' remuneration)		
– Salaries, bonus and allowance, included in		
– Cost of sales	13,951	12,188
– Selling and distribution costs	8,170	14,880
– Administrative expenses	36,565	29,051
– Retirement benefits scheme contributions, included in		
– Administrative expenses	2,765	2,512

* Included in selling and distribution costs

Note: For the year ended 31 December 2023, the cost of inventories recognised as an expense in cost of sales included approximately HK\$1,259,000 (2022: write-down of approximately HK\$146,000) in respect of reversal of write-down of finished goods to net realisable value.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

12. DIRECTORS' EMOLUMENTS

(a) The emoluments of each director were as follows:

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Year ended 31 December 2023				
Executive directors:				
Mr. Zhang Qijun (<i>Chairman</i>)	–	200	–	200
Ms. Lai Yee Man (<i>resigned on 17 April 2023</i>)	–	76	–	76
Mr. Liu Mingqing	–	600	–	600
Mr. Sun Wei Wei (<i>appointed on 5 September 2023</i>)	–	–	–	–
Independent non-executive directors:				
Mr. Wang Xiao Ning	144	–	–	144
Mr. Kong Chun Wing (<i>resigned on 15 June 2023</i>)	55	–	–	55
Ms. Chen Yuxin	–	–	–	–
Ms. Wei Yu (<i>appointed on 19 June 2023</i>)	64	–	–	64
	263	876	–	1,139

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

12. DIRECTORS' EMOLUMENTS *(continued)*

(a) The emoluments of each director were as follows: *(continued)*

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Year ended 31 December 2022				
Executive directors:				
Mr. Zhang Qijun <i>(Chairman)</i>	–	203	–	203
Ms. Lai Yee Man	–	240	–	240
Mr. Liu Mingqing	–	600	–	600
Independent non-executive directors:				
Mr. Wang Xiao Ning	144	–	–	144
Mr. Cheng Ho On <i>(resigned on 12 August 2022)</i>	74	–	–	74
Mr. Kong Chun Wing	120	–	–	120
Mr. Lai Chi Yin Samuel <i>(retired on 23 June 2022)</i>	58	–	–	58
Ms. Chen Yuxin	–	–	–	–
	396	1,043	–	1,439

During the years ended 31 December 2023 and 2022, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Salaries, allowances and other benefits paid to or for the executive directors are generally emoluments in respect of those person's other services in connection with the management of the affairs of the Company and its subsidiaries.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

12. DIRECTORS' EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included Nil (2022: Nil) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining five (2022: five) individuals are set out below:

	2023 HK\$'000	2022 HK\$'000
Salaries, wages and allowances	11,068	8,538
Bonus*	7,267	9,570
Retirement benefits scheme contributions	1,067	826
	19,402	18,934

The emoluments fell within the following band:

	Number of individuals	
	2023	2022
HK\$1,000,000 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	–	–
HK\$2,000,001 to HK\$2,500,000	–	–
HK\$2,500,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	–	–
HK\$4,000,001 to HK\$4,500,000	–	–
HK\$4,500,001 to HK\$5,000,000	2	1
HK\$5,000,001 to HK\$5,500,000	–	1
HK\$5,500,001 to HK\$6,000,000	1	1
	5	5

During the year, no emoluments (2022: Nil) were paid by the Group to the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

* Certain key management of the Company are entitled to bonus payments which are determined based on a percentage of the Company's profit before tax for the year. For the year ended 31 December 2023, total bonus amount of approximately HK\$7,267,000 (2022: HK\$9,570,000) included 87% (2022: 91%) is performance bonus and remaining balance is double paid.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

13. DIVIDEND

The Directors did not recommend the payment of any dividend for the years ended 31 December 2023 and 2022.

14. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to owners of the Company is based on the following data:

	2023 HK\$'000	2022 HK\$'000 (Restated)
Earnings/(loss)		
Earnings/(loss) for the purpose of basic and diluted loss per share	37,213	(59,521)
Number of shares		
Weighted average number of ordinary shares in issue	95,278	50,682
Earnings/(loss) per share		
Basic earnings/(loss) per share (HK cents)	39.06	(117.44)

Note: The weighted average number of ordinary shares for the year ended 31 December 2023 has been retrospectively adjusted for the five-to-one share consolidation ("**2023 Share Consolidation**") of the Company which became effective on 28 April 2023. The weighted average number of ordinary shares for the year ended 31 December 2022 has been retrospectively adjusted for the 2023 Share Consolidation, the five-to-one share consolidation of the company which became effective on 22 July 2022 and for the bonus element of the rights issue of shares in 2022. Furthermore, as disclosed in the Note 47(ii), subsequent to the end of the reporting period, the two-to-one share consolidation was completed on 16 January 2024 ("**2024 Share Consolidation**"). The earnings/loss per share calculations for 2023 and 2022 have been adjusted so as to be based on the new number of shares under the 2024 Share Consolidation.

Diluted earnings/(loss) per share

For the year ended 31 December 2023, the computation of the basic and diluted earnings per share are the same as the convertible bonds are anti-dilutive.

For the year ended 31 December 2022, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds and convertible bonds issuable in relation to the contingent consideration payables since their assumed exercise would result in a decrease in loss per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Farming plant and equipment HK\$'000	Leasehold improvements HK\$'000	Machineries HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Roading HK\$'000 (note)	Total HK\$'000
COST/VALUATION									
At 1 January 2022	57,600	22,586	4,826	7,570	20,411	20,525	1,235	–	134,753
Adjustment on revaluation	5,600	–	–	–	–	–	–	–	5,600
Additions	–	–	–	98	49	179	–	–	326
Written off	–	–	–	(917)	(5,298)	(333)	–	–	(6,548)
Exchange difference	–	(1,780)	(121)	(196)	(400)	(879)	(147)	–	(3,523)
At 31 December 2022 and 1 January 2023	63,200	20,806	4,705	6,555	14,762	19,492	1,088	–	130,608
Adjustment on revaluation	1,200	–	–	–	–	–	–	–	1,200
Additions	–	–	–	27	29	364	83	16,800	17,303
Written off	–	–	–	(35)	(499)	(51)	(186)	–	(771)
Exchange difference	–	(588)	(42)	(51)	(39)	(288)	(48)	(138)	(1,194)
At 31 December 2023	64,400	20,218	4,663	6,496	14,253	19,517	937	16,662	147,146
ACCUMULATED DEPRECIATION									
At 1 January 2022	–	566	2,936	6,979	19,174	8,943	833	–	39,431
Charge for the year	6,160	1,327	188	70	280	2,170	220	–	10,415
Adjustment on revaluation	(6,160)	–	–	–	–	–	–	–	(6,160)
Written off	–	–	–	(834)	(4,962)	(309)	–	–	(6,105)
Exchange difference	–	(87)	(43)	(151)	(321)	(179)	(126)	–	(907)
At 31 December 2022 and 1 January 2023	–	1,806	3,081	6,064	14,171	10,625	927	–	36,674
Charge for the year	7,058	1,095	133	52	282	1,465	77	528	10,690
Adjustment on revaluation	(7,058)	–	–	–	–	–	–	–	(7,058)
Written off	–	–	–	(32)	(474)	(25)	(167)	–	(698)
Exchange difference	–	(59)	(17)	(37)	(25)	(97)	(43)	(4)	(282)
At 31 December 2023	–	2,842	3,197	6,047	13,954	11,968	794	524	39,326
CARRYING AMOUNTS									
At 31 December 2023	64,400	17,376	1,466	449	299	7,549	143	16,138	107,820
At 31 December 2022	63,200	19,000	1,624	491	591	8,867	161	–	93,934

Note: Roothing consists of the costs for construction of roads in the PRC for its plantation farms for its Chinese herbs business.

Notes to the Consolidated Financial Statements

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15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

An analysis of the cost/valuation of the above assets is as follows:

	Leasehold land and buildings HK\$'000	Farming plant and equipment HK\$'000	Leasehold improvements HK\$'000	Machineries HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Roading HK\$'000	Total HK\$'000
31 December 2023									
At cost	-	20,218	4,663	6,496	14,253	19,517	937	16,662	82,746
At valuation	64,400	-	-	-	-	-	-	-	64,400
	64,400	20,218	4,663	6,496	14,253	19,517	937	16,662	147,146
31 December 2022									
At cost	-	20,806	4,705	6,555	14,762	19,492	1,088	-	67,408
At valuation	63,200	-	-	-	-	-	-	-	63,200
	63,200	20,806	4,705	6,555	14,762	19,492	1,088	-	130,608

An analysis of the carrying amounts of the Group's leasehold land and buildings is as follows:

	2023 HK\$'000	2022 HK\$'000
Held under medium term leases in Hong Kong	64,400	63,200

The Group owns several industrial buildings where its manufacturing facilities in relation to the Group's toy business are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately as prepaid lease payment in right-of-use assets only if the payments made can be allocated reliably.

At 31 December 2023, the Group's leasehold land and buildings with an aggregate carrying amount of approximately of HK\$63,000,000 (2022: HK\$61,600,000) were pledged to secure other loan granted to the Group.

The Group's leasehold land and buildings were revalued at 31 December 2023 and 2022 using the open market value basis by reference to market evidence of recent transactions for similar properties by LCH (Asia-Pacific) Surveyors Limited ("LCH"), an independent firm of qualified professional valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the leasehold land and buildings being valued.

The carrying amount of the Group's leasehold land and buildings would have been approximately HK\$1,571,000 (2022: HK\$1,637,000) had they been stated at cost less accumulated depreciation and impairment losses.

Notes to the Consolidated Financial Statements

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16. RIGHT-OF-USE ASSETS

	Leased farming land HK\$'000	Leased properties HK\$'000	Motor vehicles HK\$'000	Prepaid lease payment HK\$'000	Total HK\$'000
Cost					
As at 1 January 2022	–	5,835	3,511	–	9,346
Additions	1,156	–	–	–	1,156
Adjustment relating to change in the index (note)	–	104	–	–	104
Effect of foreign currency exchange difference	(36)	8	–	–	(28)
As at 31 December 2022 and 1 January 2023	1,120	5,947	3,511	–	10,578
Additions	–	–	–	27,666	27,666
Expiry of lease	–	(5,963)	–	–	(5,963)
Effect of foreign currency exchange difference	(32)	16	–	(228)	(244)
As at 31 December 2023	1,088	–	3,511	27,438	32,037
Accumulated depreciation					
As at 1 January 2022	–	3,923	381	–	4,304
Charge for the year	43	1,429	702	–	2,174
Effect of foreign currency exchange	(1)	1	–	–	–
As at 31 December 2022 and 1 January 2023	42	5,353	1,083	–	6,478
Charge for the year	41	595	702	922	2,260
Expiry of lease	–	(5,963)	–	–	(5,963)
Effect of foreign currency exchange	(2)	15	–	(7)	6
As at 31 December 2023	81	–	1,785	915	2,781
Carrying amount					
At 31 December 2023	1,007	–	1,726	26,523	29,256
At 31 December 2022	1,078	594	2,428	–	4,100

Note:

The landlord should refer to the consumer price Index of the United States department of labor to adjust the rent fee.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

16. RIGHT-OF-USE ASSETS *(continued)*

	2023 HK\$'000	2022 HK\$'000
Expenses relating to short-term leases	5,750	4,611
Total cash outflows in respect of lease liabilities	1,491	2,334

The Group has obtained the right to use properties as its leased farming land in the PRC, offices through tenancy agreements in Hong Kong and the United States of America, and the right to use motor vehicles through lease agreements. The leases typically run for an initial period of 2 to 36 years without extension options. The leases only included fixed lease payment. The prepaid lease payment represents the land use right for plantation farms located in PRC.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leased farming land	Over the lease term of 29 to 36 years
Leased properties	Over the lease term of 2 to 3 years
Motor vehicle	4 to 5 years
Prepaid lease payments	Over the lease term of 10 years

17. INVESTMENT PROPERTIES

	2023 HK\$'000	2022 HK\$'000
Fair value		
At 1 January	13,686	12,471
Fair value (loss)/gain	(989)	1,915
Exchange differences	(247)	(700)
At 31 December	12,450	13,686

The Group's investment properties consist of commercial properties in the PRC and Hong Kong, which are held under medium term leases. The Directors have determined that the investment properties are commercial assets, based on the nature, characteristics and risks of the properties.

Investment properties were revalued at 31 December 2023 and 2022 on the open market value basis by reference to market evidence of recent transactions for similar properties by LCH, an independent firm of qualified professional valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

At 31 December 2023, the Group's investment properties with an aggregate carrying amount of approximately HK\$8,550,000 (2022: HK\$8,686,000) were pledged to secure banking facilities granted to the Group.

Notes to the Consolidated Financial Statements

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18. GOODWILL

	HK\$'000
Cost	
At 1 January 2022	56,902
Exchange difference	(2,100)
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At 31 December 2022 and 1 January 2023	54,802
Exchange difference	(3,862)
<hr/>	
At 31 December 2023	50,940
<hr/>	
Carrying amount	
At 31 December 2023	50,940
<hr/>	
At 31 December 2022	54,802
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Impairment test

Goodwill set out above has been allocated to one individual cash generating unit ("CGU"), comprising the subsidiary — Hubei Jincaotang Pharmaceutical Co., Ltd. ("**Hubei Jincaotang**") in the Chinese herbs — Chinese herbs business segment. The goodwill arose from the acquisition of Hubei Jincaotang, which is engaged in the development, processing and manufacturing of Chinese herbs, on 27 May 2021.

The recoverable amount of the CGU was based on its value-in-use calculation using cash flow projections based on financial budgets approved by management covering the period of 3 years (2022: 3 years).

Key assumptions used in the calculation of value-in-use were discount rate, growth rate, budgeted revenue, gross margins, selling and distribution costs and administrative expenses. The pre-tax discount rate applied to the cash flow projections is 23% (2022: 27%). The CGU's cash flows beyond the 3-year period are extrapolated using a steady 2% growth rate (2022: 2%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Budgeted revenue has been based on past experience and future expectations in the light of anticipated economic and market conditions. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales, gross margin, selling and distribution costs and administrative expenses, such estimation is based on the unit's past performance and management's expectations for the market development. There has been no change from the valuation technique used in the prior year. Based on the valuation report prepared by LCH (2022: LCH), management of the Group determines that there is no impairment on the CGU.

The recoverable amount is significantly above the carrying amount of the CGU. Management of the Group believes that any reasonable possible change in any of these assumptions would not result in impairment.

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19. OTHER INTANGIBLE ASSETS

	Trademark HK\$'000	Customer contracts HK\$'000 (Note)	Forestry right HK\$'000	Total HK\$'000
Cost				
At 1 January 2022	1,155	47,998	–	49,153
Additions	–	–	2,445	2,445
Exchange difference	–	(3,779)	(76)	(3,855)
At 31 December 2022 and 1 January 2023	1,155	44,219	2,369	47,743
Exchange difference	–	(1,250)	(67)	(1,317)
At 31 December 2023	1,155	42,969	2,302	46,426
Accumulated amortisation				
At 1 January 2022	178	19,053	–	19,231
Charge for the year	12	21,827	73	21,912
Exchange difference	–	(2,181)	(3)	(2,184)
At 31 December 2022 and 1 January 2023	190	38,699	70	38,959
Charge for the year	12	2,708	70	2,790
Exchange difference	–	(1,116)	(2)	(1,118)
At 31 December 2023	202	40,291	138	40,631
Carrying amount				
At 31 December 2023	953	2,678	2,164	5,795
At 31 December 2022	965	5,520	2,299	8,784

Note:

Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. Those customer contracts have finite useful lives and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the expected lives of 2-4 years.

20. INVESTMENTS IN ASSOCIATES

	2023 HK\$'000	2022 HK\$'000
Unlisted investments:		
Share of net assets	246,969	276,104
Goodwill	698,800	698,718
	945,769	974,822
Impairment losses	(698,800)	(664,486)
	246,969	310,336

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20. INVESTMENTS IN ASSOCIATES *(continued)*

The following table shows information of associates that are material to the Group. These associates are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRSs financial statements of the associates.

(a) Multijoy Group

Name	Multijoy Developments Limited (“ Multijoy ”)
Principal place of business/country of incorporation	The PRC/British Virgin Islands
Principal activities	Fruit plantation

	2023	2022
% of ownership interests	40%	40%
	HK\$'000	HK\$'000
At 31 December:		
Non-current assets	452,676	465,324
Current assets	12,510	12,914
Non-current liabilities	(120,483)	(128,582)
Current liabilities	(6,952)	(7,044)
Net assets	337,751	342,612
Group's share of net assets	135,100	137,045
Goodwill	453,886	453,886
Impairment losses	588,986 (453,886)	590,931 (453,886)
Carrying amount of Group's interests	135,100	137,045
Year ended 31 December:		
Revenue	–	–
Profit/(loss) before tax	475	(19,298)
Profit/(loss) after tax	4,976	(14,556)
Other comprehensive loss	(9,837)	(30,630)
Total comprehensive loss	(4,861)	(45,186)
Dividends received from associates	–	–

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For the year ended 31 December 2023

20. INVESTMENTS IN ASSOCIATES *(continued)*

(a) **Multijoy Group** *(continued)*

Impairment assessment

In light of no generation of revenue and the total comprehensive loss incurred by Multijoy Group during the year ended 31 December 2023, the Directors have performed impairment assessment on investment in Multijoy Group. The recoverable amount of Multijoy Group has been determined by an independent professional valuer, Weisi Limited ("**Weisi**") (2022: Weisi) based on fair value less costs of disposal ("**FVLCOD**").

The FVLCOD of Multijoy Group is estimated by Asset Approach. In this approach, the share of the net asset value has been used to capture the present value of the expected future economic benefits to be derived from the ownership of Multijoy Group. Weisi determined the fair value of the major asset owned by Multijoy Group and the resultant value is to be deducted by its liabilities. The major asset of the Multijoy Group included forestry concession rights in the PRC.

The FVLCOD of investment in Multijoy Group is classified as level 3 measurement. There was no change of fair value hierarchy during the years ended 31 December 2023 and 2022. Significant unobservable input included discount factor of lack of control, the higher the discount factor, the lower the fair value.

As a result of the impairment assessment, no impairment loss had been recognised in respect of the investment in Multijoy Group during the year ended 31 December 2023 (2022: Nil).

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20. INVESTMENTS IN ASSOCIATES *(continued)*

(b) Fujian Yuguo Chaye Limited

Name	Fujian Yuguo Chaye Limited ("Fujian Yuguo")
Principal place of business/country of incorporation	The PRC/the PRC
Principal activities	Trading of tea products

	2023	2022
% of ownership interests	33%	33%
	HK\$'000	HK\$'000
At 31 December:		
Non-current assets	5,681	5,847
Current assets	2,099	2,304
Current liabilities	(383)	(394)
Net assets	7,397	7,757
Group's share of net assets	2,441	2,559
Goodwill	31,360	31,360
Impairment losses	33,801	33,919
	(31,360)	(32,860)
Carrying amount of Group's interests	2,441	1,059
Year ended 31 December:		
Revenue	78	310
Loss before tax	(141)	(506)
Loss after tax	(141)	(506)
Other comprehensive (loss)/income	(218)	584
Total comprehensive (loss)/income	(359)	78
Dividends received from associate	–	–

The management assesses whether there is any indication that the investment in associates may be impaired or impairment loss that is previously made may be reversed at each reporting period. The recoverable amount of the investment in an associate is determined based on the higher of value in use or fair value less cost of disposal.

The management assesses that the net assets is higher than the carrying amount of share of result of the associate, thus reversal of impairment loss of approximately HK\$1,500,000 (2022: Nil) was recognised.

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20. INVESTMENTS IN ASSOCIATES (continued)

(c) Anhui Fu Lao Wine Development Company Limited

Name	Anhui Fu Lao Wine Development Company Limited ("Anhui Fu Lao")
Principal place of business/country of incorporation	The PRC/the PRC
Principal activities	Trading of wine products

	2023	2022
% of ownership interests	20%	20%
	HK\$'000	HK\$'000
At 31 December:		
Non-current assets	57,548	63,723
Current assets	408,698	544,456
Non-current liabilities	–	(11,281)
Current liabilities	(737)	(1,442)
Net assets	465,509	595,456
Group's share of net assets	93,102	119,091
Year ended 31 December:		
Revenue	4,073	7,917
Loss before tax	(114,048)	(14,578)
Loss after tax	(114,048)	(14,578)
Other comprehensive loss	(15,899)	(51,636)
Total comprehensive loss	(129,947)	(66,214)
Dividend received from associate	–	–

Since 31 May 2018, the Group has 20% equity interest Anhui Fu Lao. Due to the lack of cooperation from the administrator of the deceased vendor of Anhui Fu Lao (the "Administrator"), the transfer procedures of 20% equity to the Group remains incomplete. Reference to announcement of the Company date on 14 March 2023, the case was concluded on 24 February 2023. The Civil Judgment proclaimed that the 20% equity interests in Anhui Fu Lao under the name of Mr. Chen Jun Wei, son of the deceased shall belong to the Group. Such judgment is final. In the opinion of the Directors, the Group is the rightful owner of the 20% equity interests in Anhui Fu Lao.

Based on the legal opinion from the PRC lawyers, the Group has two years right to enforce the judgment on the Administrator. As at the date of approval for issuance of the consolidated financial statements, the transfer of ownership is yet to be completed and the directors are of the opinion it is in the interest of Anhui Fu Lao's to allow the business to continue to operate normally. The directors will take further action to enforce the judgment in August 2024 if the transfer is not completed by then.

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20. INVESTMENTS IN ASSOCIATES *(continued)*

(c) Anhui Fu Lao Wine Development Company Limited *(continued)*

Impairment assessment

In view of the slow recovery pace of the global business environment and significant loss incurred by Anhui Fu Lao during the years ended 31 December 2023 and 2022, the Directors have performed impairment assessment on investment in Anhui Fu Lao. The recoverable amount of Anhui Fu Lao has been determined by Weisi (2022: LCH) based on FVLCOB.

The FVLCOB of Anhui Fu Lao is estimated by the Asset Approach. In this approach, the share of the net asset value has been used to capture the present value of the expected future economic benefits to be derived from the ownership of Anhui Fu Lao. Weisi (2022: LCH) determined the fair value of major assets (Base Wine (酒基), Wine Tanks (酒壇酒) and Land and Buildings) owned by Anhui Fu Lao and the resultant value is to be deducted by its liabilities.

The FVLCOB of investment in Anhui Fu Lao is classified as level 3 measurement. There was no change of fair value hierarchy during the years ended 31 December 2023 and 2022. Significant unobservable input included discount factor of lack of control, the higher the discount factor, the lower the fair value.

As a result of the impairment assessment, no impairment loss had been recognised in respect of the investment in Anhui Fu Lao during the year ended 31 December 2023 (2022: Nil).

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20. INVESTMENTS IN ASSOCIATES (continued)

(d) USO Management & Holding Co. Ltd.

Name	USO Management & Holding Co. Ltd. ("USO")
Principal place of business/country of incorporation	Samoa/Samoa
Principal activities	Plantation and trading of noni fruit

	2023	2022
% of ownership interests	47%	47%
	HK\$'000	HK\$'000
At 31 December:		
Non-current assets	24,384	25,610
Current assets	30,175	28,951
Non-current liabilities	(7,456)	(7,453)
Current liabilities	(12,367)	(10,068)
Net assets	34,736	37,040
Group's share of net assets	16,326	17,409
Goodwill	213,554	213,472
Impairment losses	299,880 (213,554)	230,881 (177,740)
Carrying amount of Group's interests	16,326	53,141
Year ended 31 December:		
Revenue	32,670	33,259
Loss before tax	(2,322)	(22,457)
Loss after tax	(2,322)	(22,457)
Other comprehensive income	20	143
Total comprehensive loss	(2,302)	(22,314)
Dividend received from associate	–	–

The Group has 47% ownership interest and voting rights in USO. By considering that the Group has no sufficiently dominant voting rights to direct the relevant activities of USO unilaterally, the Directors conclude that the Group only has significant influence over USO and therefore it is classified as an associate of the Group.

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20. INVESTMENTS IN ASSOCIATES *(continued)*

(d) USO Management & Holding Co. Ltd. *(continued)*

Impairment assessment

The management assesses whether there is any indication that the investment in associates may be impaired or impairment loss that is previously made may be reversed at each reporting period. The recoverable amount of the investment in an associate is determined based on the higher of value in use or fair value less cost of disposal.

In view of the slow recovery pace of the global business environment and USO incurred significant loss during the year, the Directors have performed impairment assessment on investment in USO. The recoverable amount of investment in USO has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management of USO covering a 5-year period (2022: 5-year), and discount rate of 16.8% (2022: 17%). USO's cash flows beyond the 5-year period (2022: 5-year) are extrapolated using a steady 2% (2022: 2.1%) growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and net profit margins.

The budgeted sales is based on sales contracts signed with different customers as at the end of the reporting period, and sales growth rate of 4% to 7% (2022: 13% to 70%) is adopted, which does not exceed the average long-term growth rate for the relevant industry.

The budgeted net profit margins during the projection period are based on the budgeted costs for each year with reference to the historical net profit margin of USO.

Based on the valuation report prepared by LCH (2022: LCH), the recoverable amount of USO is approximately HK\$15,111,000 (2022: HK\$64,081,000), and an impairment loss of approximately HK\$35,814,000 was recognised for the year ended 31 December 2023 (2022: Nil).

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21. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 HK\$'000	2022 HK\$'000
Unlisted investments		
— Equity securities	—	—

The unlisted equity investments represented the Group's 20% equity interest in a group of private entities established in the PRC (the "Investment Group") which owned the exploration rights of coal mines in inner Mongolia, the PRC. The Directors have elected to designate these investments in equity instruments at FVTOCI as the investments are held for long-term strategic purpose. The Investment Group, is not regarded as associates of the Group because the Group has no right to appoint directors of the Investment Group and the Group cannot exercise significant influence through participation in the directors' meeting of the Investment Group. In the absence of mining rights of the coal mining, an impairment loss of approximately HK\$3,435,000 was recognised during the year ended 31 December 2020 to fully write down the carrying amount of the investment.

In the opinion of the Directors as at 31 December 2023 and 2022, the Investment Group was still unable to generate cash flows to the Group due to the absence of the mining rights of the coal mines concerned.

22. DEFERRED INCOME TAX

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

	2023 HK\$'000	2022 HK\$'000
Deferred income tax assets	1,589	881
Deferred income tax liabilities	(12,927)	(19,631)
	(11,338)	(18,750)

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22. DEFERRED INCOME TAX (continued)

The following are the major deferred tax liabilities and assets recognised by the Group:

	Decelerated tax depreciation HK\$'000	Accelerated tax depreciation HK\$'000	Revaluation surplus on investment properties and leasehold land and buildings HK\$'000	Fair value adjustments on property, plant and equipment arising from acquisition of a subsidiary HK\$'000	Fair value adjustments on other intangible assets arising from acquisition of a subsidiary HK\$'000	PRC dividend withholding tax HK\$'000	Total HK\$'000
At 1 January 2022	635	(362)	(12,130)	(750)	(4,342)	(3,130)	(20,079)
Charge to equity for the year	-	-	(1,940)	-	-	-	(1,940)
(Charge)/credit to profit or loss for the year	245	12	(385)	-	3,285	-	3,157
Exchange differences	1	(300)	113	59	239	-	112
At 31 December 2022 and 1 January 2023	881	(650)	(14,342)	(691)	(818)	(3,130)	(18,750)
Charge to equity for the year	-	-	(1,363)	-	-	-	(1,363)
Credit to profit or loss for the year	798	643	3,429	-	694	3,130	8,694
Exchange differences	(2)	7	39	20	17	-	81
At 31 December 2023	1,677	-	(12,237)	(671)	(107)	-	(11,338)

At the end of the reporting period the Group has unused tax losses of approximately HK\$7,151,000 (2022: HK\$9,552,000) available for offset against future profits. No deferred income tax assets have been recognised due to the unpredictability of future taxable profit of these subsidiaries. Tax losses may be carried forward indefinitely.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of a subsidiary in the PRC for which deferred tax liabilities have not been recognised was approximately HK\$164,607,000 (2022: HK\$119,360,000). No deferred tax liability has been recognised in respect of these differences because the Directors considers the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

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For the year ended 31 December 2023

23. INVENTORIES

	2023 HK\$'000	2022 HK\$'000
Raw materials	7,817	9,594
Work in progress	1,073	117
Finished goods	79,020	64,545
	87,910	74,256

24. BIOLOGICAL ASSETS

Biological assets comprise solely of fresh herbs growing on herb plants.

	2023 HK\$'000	2022 HK\$'000
At 1 January	5,198	–
Increase due to purchase and cultivation	–	5,198
Exchange difference	(147)	–
At 31 December	5,051	5,198

Based on the valuation report prepared by LCH (2022: LCH), no change in fair value was noted as at 31 December 2023 and 2022.

25. TRADE AND BILLS RECEIVABLES

	2023 HK\$'000	2022 HK\$'000
Trade receivables — contracts with customers	51,127	60,921
Less: Allowance for credit losses	(11,661)	(10,700)
Trade receivables, net	39,466	50,221
Bills receivables	17,763	7,108
	57,229	57,329

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25. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2023 HK\$'000	2022 HK\$'000
Within 30 days	13,867	31,688
31 days to 90 days	20,961	15,013
91 days to 180 days	2,168	3,158
181 days to 360 days	1,869	362
Over 360 days	601	–
	39,466	50,221

As of 31 December 2023, trade receivables of approximately HK\$17,604,000 (2022: HK\$9,653,000) were past due and net of allowance. These relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables based on due date, is as follows:

	2023 HK\$'000	2022 HK\$'000
Within 90 days	14,417	6,856
91 days to 180 days	1,608	2,532
181 days to 360 days	1,579	265
	17,604	9,653

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	2023 HK\$'000	2022 HK\$'000
<i>Non-current portion:</i>			
Deposit and other receivables		–	106
		–	106
<i>Current portion:</i>			
Trade deposits	(a)	5,550	108,339
Deposit and other receivables	(b)	45,167	47,626
Prepayment		2,652	1,504
		53,369	157,469
Total prepayments, deposits and other receivables		53,369	157,575

- (a) Included in trade deposits at 31 December 2022 is an amount of approximately HK\$60,000,000 which was paid by issuance of the Company's promissory notes with principal amount of HK\$60,000,000 in aggregate during the year ended 31 December 2019 to the suppliers for purchasing wine and juice. On 20 October 2023, the Group's subsidiary in the PRC entered into cancellation of agreements with the two vendors and the said promissory notes together with the deposits were cancelled and all accrued interest of approximately HK\$4,132,000 (note 7) were waived during the year ended 31 December 2023.

At 31 December 2023, trade deposits of approximately HK\$5,550,000 (2022: HK\$108,339,000) in relation to the Group's leisure business is Nil (2022: HK\$72,897,000) for purchase of wines, Group's toy business HK\$5,550,000 (2022: HK\$5,468,000) for purchase toys and gift and Group's herbs business is Nil (2022: HK\$29,981,000).

- (b) At 31 December 2023, deposits and other receivable included approximately HK\$32,794,000 in relation to the purchase of plant seeds, fertilisation and cultivation for plantation of Chinese herbs in the PRC (2022: Nil) and amount due from an associate HK\$10,618,000 (2022: HK\$10,618,000), details per note 43(b)(ii) to the consolidated financial statement.

27. BANK BALANCES AND CASH

	2023 HK\$'000	2022 HK\$'000
Cash and cash equivalents consisted of:		
Bank balance	111,609	98,913
Cash in hand	258	145
	111,867	99,058

As at 31 December 2023, the bank balances and cash of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$54,602,000 (2022: HK\$47,443,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

For the year ended 31 December 2023, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided (2022: Nil).

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28. TRADE PAYABLES

An aging analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2023 HK\$'000	2022 HK\$'000
Within 30 days	14,062	10,753
31 days to 90 days	4,776	2,912
91 days to 180 days	2,693	729
181 days to 360 days	2	12
Over 360 days	582	631
	22,115	15,037

29. ACCRUALS AND OTHER PAYABLES

	Note	2023 HK\$'000	2022 HK\$'000
Other payables	(a)	64,353	68,020
Obligation under share re-purchase arrangement	35(a)	8,000	8,000
Other accruals	(b)	10,484	31,906
Accrued salaries		17,612	18,625
Accrued professional fees		11,942	9,014
VAT payables		2,785	2,560
Interest payables		–	20,044
Receipts in advance		415	310
Due to related parties	43(b)(ii)	1,926	1,285
		117,517	159,764

(a) Other payables comprised:

	2023 HK\$'000	2022 HK\$'000
Overpayment from customer	14,760	16,000
Amounts due to former directors (i)	6,045	6,045
Guo Jing Sheng ("Mr. Guo") (ii)	9,600	9,600
Royalty payable	6,108	4,930
Commission payable	6,093	6,220
Others	21,747	25,225
	64,353	68,020

(i) The amounts are interest free and without fixed repayment terms.

(ii) As at 31 December 2023 and 2022, included in other payables is an amount due to Mr. Guo of approximately HK\$9,600,000 in relation outstanding borrowings. Details per note 45(a) to the consolidated financial statement.

(b) As at 31 December 2022, the other accruals included an amount of approximately HK\$23,469,000 due to her be settled by the Company's loan capitalisation (2023: nil). Details per note 35(e) to the consolidated financial statement.

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30. PROMISSORY NOTES

	Notes	Total HK\$'000
At 1 January 2022		250,621
Repayment of promissory notes		(85,801)
At 31 December 2022		164,820
Cancellation of promissory notes	(a)	(92,000)
Cancellation of promissory notes	(b)	(60,000)
Settlement by issuance of shares	35(e)	(7,631)
Repayment of promissory notes		(5,189)
At 31 December 2023		–

	2023 HK\$'000	2022 HK\$'000
An analysis is shown as follows:		
Overdue for repayment	–	164,820

	2023 HK\$'000	2022 HK\$'000
Analysed as:		
Current liabilities	–	164,820

- (a) At 31 December 2022 are promissory notes with an aggregate principal amount of HK\$92,000,000 were issued by the Company on 23 April 2015, as part of the consideration for the acquisition of an associate. The investment cost in this associate was fully impaired and written off in prior years. The promissory notes were unsecured, non-interest bearing and had a maturity period of one year after the date of issue. On 16 December 2015, the promissory note were replaced by new promissory notes of the same aggregate principal amount of HK\$92,000,000 (the "**Promissory Note**") with maturity date of 31 December 2016.

On 30 December 2016, the Company engaged its legal advisers to issue a legal letter (the "**Letter**") to Unicorn Sino Limited ("**Unicorn**"), the vendor of the associate. As set out in the Letter, the Company had relied on the representations of Ms. Wei, the ultimate sole beneficial owner of Unicorn, in particular, the business plan presented by Unicorn to the Company, when the Company and its subsidiaries entered into the sale and purchase agreement (as amended by the supplemental agreement dated 16 December 2015) and the Shareholders' Agreement (as amended by the supplemental agreement dated 16 December 2015) (collectively, the "**Agreements**") with Unicorn.

It was subsequently discovered that the representations made by Ms. Wei in respect of the business of the associate were false and misleading. Based on the legal advice from a senior counsel, the Agreements were void or voidable by reason of fraudulent misrepresentation and the Promissory Note could be rescinded, and Unicorn could not enforce the Promissory Note against the Company. In the opinion of the Directors, the financial effects of the rescission, would be recognised when the Promissory Note is legally extinguished.

Based on the latest legal opinion from the Company's external legal lawyer, the Promissory Note have been time-barred under the Limitation Ordinance and therefore, the promissory notes of HK\$92,000,000 was expired and derecognised, with the corresponding amount recognised as income during the year ended 31 December 2023.

- (b) At 31 December 2022, included in the promissory notes with the principal amount of HK\$60,000,000 are in relation to trade deposits for the purchase of wine and juice (2023: nil). The promissory notes was cancelled on 20 October 2023. Details are set out in note 26(a) to the consolidated financial statements

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31. LEASE LIABILITIES

	2023 HK\$'000	2022 HK\$'000
Lease liabilities payable:		
Within one year	723	1,338
Within a period of more than one year but not more than two years	531	727
Within a period of more than two years but not more than five years	294	826
Within a period of more than five years	1,021	1,049
	2,569	3,940
Less: Amount due for settlement with 12 months shown under current liabilities	(723)	(1,338)
Amount due for settlement after 12 months shown under non-current liabilities	1,846	2,602

The incremental borrowing rates applied to lease liabilities range from 2.61% to 5.88% (2022: from 2.61% to 5.88%).

32. BORROWINGS

	2023 HK\$'000	2022 HK\$'000
Bank loans	8,907	11,443
Bank overdraft	–	994
Other loans	132,910	97,306
	141,817	109,743
Analysed as:		
Secured	96,270	91,638
Unsecured	45,547	18,105
	141,817	109,743
The carrying amounts of the above borrowings are repayable:		
On demand or within one year	134,245	101,794
More than one year but not exceeding two years	3,667	4,274
More than two years but not exceeding five years	–	228
More than five years	3,905	3,447
	141,817	109,743
Analysed as:		
Current	134,245	101,794
Non-current	7,572	7,949
	141,817	109,743

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32. BORROWINGS (continued)

The average interest rates at 31 December were as follows:

	2023	2022
Bank loans	5%	6%
Other loans	7%	11%

At 31 December 2023, borrowings of approximately HK\$113,722,000 (2022: HK\$97,306,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. The remaining borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The directors estimate the fair values of the Group's borrowings to be approximated to its carrying amounts as at the end of the reporting periods.

Notes:

- (i) The Group's leasehold land and buildings with carrying amount as at 31 December 2023 of approximately HK\$63,000,000 (2022: HK\$61,600,000) and investment properties with carrying amount as at 31 December 2023 of approximately HK\$8,550,000 (2022: HK\$8,686,000) were pledged as security for the Group's other loan with carrying amount as at 31 December 2023 of approximately HK\$83,450,000 respectively (2022: HK\$76,250,000).
- (ii) At 31 December 2023, the Group's borrowing of approximately HK\$8,907,000 (2022: HK\$11,443,000) were secured by personal guarantee by directors or senior management of subsidiaries of the Group.
- (iii) The Group's bank loan and other loan of approximately HK\$3,974,000 and HK\$3,912,000 respectively (2022: HK\$4,676,000 and HK\$4,020,000 respectively) were secured by a floating charge and fixed charge respectively over all assets of a subsidiary of the Group with carrying amount of approximately HK\$16,735,000 (2022: HK\$17,004,000) as at 31 December 2023.

33. CONTINGENT CONSIDERATION PAYABLES

	HK\$'000
At fair value	
At 1 January 2022	84,683
Transfer to convertible bonds	(43,354)
Change in fair value	(12,271)
At 31 December 2022 and 1 January 2023	29,058
Transfer to convertible bonds	(24,053)
Change in fair value	(5,005)
At 31 December 2023	–

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33. CONTINGENT CONSIDERATION PAYABLES (continued)

	2023 HK\$'000	2022 HK\$'000
Analysed as:		
Current	–	29,058

Pursuant to sale and purchase agreement dated 11 September 2019, the former owner of Hubei Jincaotang (the “Vendor”) and Vendor guarantor jointly undertook that the aggregate audited net profit after taxation of Hubei Jincaotang (excluding extraordinary items) (the “Actual Profits”) throughout the period from 27 May 2021 (date of completion of the acquisition) to two year anniversary (the “Relevant Periods”) as defined below shall be not less than RMB82 million (equivalent to approximately HK\$90.2 million) (the “Aggregate Guaranteed Profit”). The Aggregate Guaranteed Profits shall be split into four tranches for settlement throughout the Relevant Periods, as follow:

- (i) the Actual Profits of Hubei Jincaotang for the six-month period after the date of completion (the “First Relevant Period”) shall be not less than RMB20 million (equivalent to approximately HK\$22 million) (the “First Guaranteed Profits”);
- (ii) the Actual Profits of Hubei Jincaotang for the six-month period after the First Relevant Period (the “Second Relevant Period”) shall be not less than RMB20 million (equivalent to approximately HK\$22 million) (the “Second Guaranteed Profits”);
- (iii) the Actual Profits of Hubei Jincaotang for the six-month period after the Second Relevant Period (the “Third Relevant Period”) shall be not less than RMB21 million (equivalent to approximately HK\$23.1 million) (the “Third Guaranteed Profits”); and
- (iv) the Actual Profits of Hubei Jincaotang for the six-month period after the Third Relevant Period (the “Final Relevant Period”) shall be not less than RMB21 million (equivalent to approximately HK\$23.1 million) (the “Final Guaranteed Profits”). The Actual Profits or loss in a Relevant Period shall have cumulative effect and the Actual Profits/loss in a Relevant Period will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the consideration payable to be satisfied by the Company to the Vendor.

If the aggregate actual audited net profit of Hubei Jincaotang (excluding extraordinary items) for the First Relevant Period falls short of RMB20 million (equivalent to approximately HK\$22 million) but more than HK\$0, then the Company shall issue such portion of principal amount of the 1st tranche convertible bonds to the Vendor (or its nominee) based on the follow formula:

$$\text{First Consideration Payable of HK\$34 million} \times \frac{\text{Actual profits for the First Relevant Period}}{\text{First Guaranteed Profits}}$$

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

33. CONTINGENT CONSIDERATION PAYABLES *(continued)*

If the above formula recorded a negative figure (i.e. a loss-making situation), then the 1st tranche convertible bonds will not be issued to the Vendor and such negative figures will be carried forward in determining the aggregate guaranteed profits up to the Second Relevant Period and the corresponding amount of the Second Consideration Payable to be satisfied by the Company to the Vendor. If the Actual Profits for the First Relevant Period exceed the First Guaranteed Profits, no upward adjustment will be allowed, however, the amount exceeding the First Guaranteed Profits will be carried forward in determining the aggregate guaranteed profits up to the Second Relevant Period and the corresponding amount of the Second Consideration Payable to be satisfied by the Company to the Vendor.

If the Actual Profit(s) in a Relevant Period plus all previous accumulated Actual Profits/loss of all previous Relevant Period(s) is less than the amount of the Aggregate Guaranteed Profits up to such Relevant Period, then the Company shall issue such portion of principal amount of the Consideration Payable(s) to the Vendor (or its nominee) for such Relevant Period based on the following formula:

$$\begin{array}{r}
 \text{Aggregate Consideration} \\
 \text{Payable(s) up to} \\
 \text{such Relevant Period} \\
 \text{of HK\$119 million}
 \end{array}
 \times
 \frac{\begin{array}{c} \text{Accumulated Actual} \\ \text{Profits/loss up to} \\ \text{such Relevant Period} \end{array}}{\begin{array}{c} \text{Aggregate Guaranteed} \\ \text{Profits up to such Relevant} \\ \text{Period} \end{array}}
 -
 \begin{array}{c} \text{All previous paid} \\ \text{Consideration Payable(s)} \\ \text{immediately prior to} \\ \text{such Relevant Period} \end{array}$$

If the above formula in the Second Relevant Period and/or the Third Relevant Period recorded a negative figure, then no part of the 2nd Tranche Convertible Bonds and/or the 3rd Tranche Convertible Bonds will be issued to the Vendor and such negative figures will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor. If the accumulated Actual Profits up to a Relevant Period exceed the Aggregate Guaranteed Profits up to the same Relevant Period, no upward adjustment will be allowed, however, the amount exceeding the Aggregate Guaranteed Profits up to a Relevant Period will be carried forward in determining the Aggregate Guaranteed Profits up to the next Relevant Period and the corresponding amount of the Consideration Payable to be satisfied by the Company to the Vendor.

If the above formula in the Final Relevant Period recorded a negative figure, then no part of the 4th Tranche Convertible Bonds will be issued to the Vendor and the Vendor and the Guarantor shall compensate the Purchaser equals to such amount but subject to a maximum limit of HK\$102,000,000. (i.e. the maximum aggregate payment up to the Third Relevant Period).

If the accumulated Actual Profits throughout the Relevant Periods is less than the Aggregate Guaranteed Profits throughout the Relevant Periods but more than HK\$0, then the Vendor and the Guarantor shall compensate the Purchaser the portion of the Initial Payment based on following formula:

$$\begin{array}{c} \text{Initial Payment} \end{array}
 \times
 \frac{\begin{array}{c} \text{(Aggregate Guaranteed Profits throughout the Relevant Periods} \\ \text{– accumulated Actual Profits throughout the Relevant Periods)} \end{array}}{\text{Aggregate Guaranteed Profits}}$$

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

33. CONTINGENT CONSIDERATION PAYABLES^(continued)

No upward adjustment to the Consideration is allowed in the event the accumulated Actual Profits throughout the Relevant Period is more than the Aggregate Guaranteed Profits throughout the Relevant Periods. The maximum possible amount of the compensation at the end of the Relevant Period is limited to the initial payment plus any accumulate Consideration Payables paid out i.e. HK\$153,000,000.

During the year ended 31 December 2022, the 2nd tranche and 3rd tranche was issued to the vendor following the issue of the Auditor's Certificate by a PRC auditor in relation to the First Guaranteed Profits and Second Guaranteed Profits being achieved in the First Relevant Period and Second Relevant Period and transferred to convertible bonds at principal amount of HK\$34,000,000 and HK\$34,000,000 respectively and at fair value of approximately HK\$20,955,000 and HK\$22,399,000 respectively.

During the year ended 31 December 2023, the 4th tranche and final tranche were issued to the vendor following the issue of the Auditor's Certificate by a PRC auditor in relation to the Third Guaranteed Profits and Final Guaranteed Profits being achieved in the Third Relevant Period and Final Relevant Period and transferred to convertible bonds at principal amount of HK\$34,000,000 and HK\$17,000,000 respectively and at fair value of approximately HK\$16,168,000 and HK\$7,885,000 respectively.

The aggregate fair value of contingent consideration payables arising from each tranche of convertible bonds was estimated by an LCH (2022: LCH). The fair value was estimated by using Monte Carlo simulation analysis, which is based on discounted probability-adjusted profit or loss projection. There was no change in the valuation technique from previous year. The key input and assumptions used by LCH included simulated revenue of Hubei Jincaotang throughout the Relevant remaining Periods.

The variables and assumptions used in computing the fair value of the contingent consideration payables are based on the management's best estimate. The value of the contingent consideration payables varies with different variables of certain subjective assumptions.

The fair value of contingent consideration payables is a level 3 recurring fair value measurement.

34. CONVERTIBLE BONDS

Save as disclosed in note 33 on the consolidated financial statements, the Company has committed to issue of Convertible Bonds (the "CB") to the vendor in aggregate five tranches of CB, subject to the profit guarantee arrangement.

The CB entitle the holders to convert them into ordinary shares of the Company at any time between the date falling on the third anniversary of the date of issue of each tranche of the CB at a conversion price of HK\$2.00 per share. On 27 June 2022, the conversion price adjusted from HK\$2.00 per share to HK\$10.00 number of adjusted shares as a result of the capital reorganisation. Details of the Capital reorganisation is set out in the Company's announcement dated 23 March 2022 and the Company's circular dated 2 June 2022. On 2 May 2023, the conversion price adjusted from HK\$10.00 per share to HK\$50.00 per adjusted share and number of shares as a result of the share consolidation on 28 April 2023. Adjusted if the CB had not been converted, they will be redeemed on maturity date at par. The CB does not bear any coupon interest. The Company has the right to redeem the whole or any part of the principal amount of the CB at any time on any business day prior to the maturity date. The derivative components comprise early redemption option and conversion are measured at fair value with changes in fair value recognised in profit or loss. During the year ended 31 December 2023 and 2022, none of the CBs issued have been converted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

34. CONVERTIBLE BONDS (continued)

The movements of the liability and the derivative components of the CB are set out as below:

	Liability Component HK\$'000	Derivative Component HK\$'000	Total HK\$'000
At 1 January 2022	42,311	16	42,327
Upon issue of convertible bonds	43,150	204	43,354
Change in fair value	–	(168)	(168)
Effective interest expense	5,700	–	5,700
At 31 December 2022 and 1 January 2023	91,161	52	91,213
Upon issue of convertible bonds	23,987	66	24,053
Change in fair value	–	(112)	(112)
Effective interest expense	15,457	–	15,457
At 31 December 2023	130,605	6	130,611

1st Tranche Convertible Bonds

On 27 May 2021, the Company issued convertible bonds (the “CB”) with the aggregate principal amount of HK\$51,000,000 to an independent third party as a consideration for acquisition of Hubei Jincaotang. The CB contain two components, a liability component and a derivative component representing the conversion option and the early redemption option at the option of issuer. The fair value of the liability component and the derivative component on initial recognition of approximately HK\$40,385,000 and HK\$137,000 respectively were determined at the date of issuance of the CB. The effective interest rate of the liability component is 7.92%.

The fair values of the derivative components of the CB at the end of the reporting period were determined by independent qualified valuer based on the Binomial Pricing model, with significant unobservable inputs and therefore were classified as level 3 of the fair value hierarchy. The key inputs used in the model are as follows:

	At 31 December 2022	At 31 December 2023
Conversion period start date	27 May 2021	27 May 2021
Conversion period end date	27 May 2024	27 May 2024
Maturity date	27 May 2024	27 May 2024
Time to maturity	1.41 years	0.41 years
Conversion price	HK\$10*	HK\$50#
Expected volatility	126%	115%
Expected dividend yield	Nil	Nil
Risk-free rate	4.26%	4.28%
Discount rate	12.11%	12.66%
Percentage of principal amount to be repaid at redemption	100%	100%

* Price adjustment to HK\$10 following the capital reorganisation of the Company on 27 June 2022.

Price adjustment to HK\$50 following the share consolidation of the Company on 28 April 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

34. CONVERTIBLE BONDS *(continued)*

2nd Tranche Convertible Bonds

Based on the Auditor's Certificate of Hubei Jincaotang issued by a PRC auditor for the First Relevant Period issued on 1 July 2022, the Actual Profits had fulfilled the profit guarantee conditions for the First Relevant Period and the Company has issued the 2nd Tranche Convertible Bonds in the principal amount of HK\$34,000,000 to the Vendor. Details of the aggregate Guaranteed Profit are set out in note 33. The CB contain two components, a liability component and a derivative component representing the conversion option and the early redemption option at the option of issuer. The fair value of the liability component and derivative component on initial recognition was approximately HK\$20,868,000 and HK\$87,000 respectively were determined at the date of issuance of the CB. The effective interest rate of the liability component is 16.92%.

The fair values of the derivative components of the CB at the end of the reporting period were determined by independent qualified valuer based on the Binomial Pricing model, with significant unobservable inputs and therefore were classified as level 3 of the fair value hierarchy. The key inputs used in the model are as follow:

	At 1 July 2022	At 31 December 2022	At 31 December 2023
Conversion period start date	1 July 2022	1 July 2022	1 July 2022
Conversion period end date	1 July 2025	1 July 2025	1 July 2025
Maturity date	1 July 2025	1 July 2025	1 July 2025
Time to maturity	3 years	2.50 years	1.50 years
Conversion price	HK\$10	HK\$10	HK\$50 [#]
Expected volatility	107%	126%	115%
Expected dividend yield	Nil	Nil	Nil
Risk-free rate	2.6%	4.02%	3.51%
Discount rate	17.65%	17.60%	11.89%
Percentage of principal amount to be repaid at redemption	100%	100%	100%

[#] Price adjustment to HK\$50 following the share consolidation of the Company on 28 April 2023.

Notes to the Consolidated Financial Statements

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34. CONVERTIBLE BONDS *(continued)*

3rd Tranche Convertible Bonds

Based on the Auditor's Certificate of Hubei Jincaotang issued by a PRC auditor for the Second Relevant Period issued on 4 November 2022, the Actual Profits had fulfilled the profit guarantee conditions for the Second Relevant Period and the Company has issued the 3rd Tranche Convertible Bonds in the principal amount of HK\$34,000,000 to the Vendor. Details of the aggregate Guaranteed Profit are set out in note 33. The CB contain two components, a liability component and a derivative component representing the conversion option and the early redemption option at the option of issuer. The fair value of the liability component and derivative components on initial recognition was approximately HK\$22,282,000 and HK\$117,000 respectively were determined at the date of issuance of the CB. The effective interest rate of the liability component is 14.57%.

The fair values of the derivative components of the CB at the end of the reporting period were determined by independent qualified valuer based on the Binomial Pricing model, with significant unobservable inputs and therefore were classified as level 3 of the fair value hierarchy. The key inputs used in the model are as follow:

	At 4 November 2022	At 31 December 2022	At 31 December 2023
Conversion period start date	4 November 2022	4 November 2022	4 November 2022
Conversion period end date	4 November 2025	4 November 2025	4 November 2025
Maturity date	4 November 2025	4 November 2025	4 November 2025
Time to maturity	3 years	2.85 years	1.85 years
Conversion price	HK\$10	HK\$10	HK\$50 [#]
Expected volatility	108%	126%	115%
Expected dividend yield	Nil	Nil	Nil
Risk-free rate	4.48%	4.02%	3.35%
Discount rate	15.11%	17.11%	11.73%
Percentage of principal amount to be repaid at redemption	100%	100%	100%

[#] Price adjustment to HK\$50 following the share consolidation of the Company on 28 April 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

34. CONVERTIBLE BONDS *(continued)*

4th Tranche Convertible Bonds

Based on the Auditor's Certificate of Hubei Jincaotang issued by a PRC auditor for the Third Relevant Period issued on 17 April 2023, the Actual Profits had fulfilled the profit guarantee conditions for the Third Relevant Period and the Company has issued the 4th Tranche Convertible Bonds in the principal amount of HK\$34,000,000 to the Vendor. Details of the aggregate Guaranteed Profit are set out in note 33. The CB contain two components, a liability component and a derivative component representing the conversion option and the early redemption option at the option of issuer. The fair value of the liability component and derivative components on initial recognition was approximately HK\$16,117,000 and HK\$51,000 respectively were determined at the date of issuance of the CB. The effective interest rate of the liability component is 26.45%.

The fair values of the derivative components of the CB at initial recognition were determined by independent qualified valuer based on the Binomial Pricing model, with significant unobservable inputs and therefore were classified as level 3 of the fair value hierarchy. The key inputs used in the model are as follow:

	At 17 April 2023	At 31 December 2023
Conversion period start date	17 April 2023	17 April 2023
Conversion period end date	17 April 2026	17 April 2026
Maturity date	17 April 2026	17 April 2026
Time to maturity	3 years	2.30 years
Conversion price	HK\$10	HK\$50 [#]
Expected volatility	125%	115%
Expected dividend yield	Nil	Nil
Risk-free rate	3.20%	3.28%
Discount rate	28.22%	11.66%
Percentage of principal amount to be repaid at redemption	100%	100%

[#] Price adjustment to HK\$50 following the share consolidation of the Company on 28 April 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

34. CONVERTIBLE BONDS *(continued)*

5th Tranche Convertible Bonds

Based on the Auditor's Certificate of Hubei Jincaotang issued by a PRC auditor for the Final Relevant Period issued on 9 June 2023, the Actual Profits had fulfilled the profit guarantee conditions for the Final Relevant Period and the Company has issued the 5th Tranche Convertible Bonds in the principal amount of HK\$17,000,000 to the Vendor. Details of the aggregate Guaranteed Profit are set out in note 33. The CB contain two components, a liability component and a derivative component representing the conversion option and the early redemption option at the option of issuer. The fair value of the liability component and derivative components on initial recognition was approximately HK\$7,870,000 and HK\$15,000 respectively were determined at the date of issuance of the CB. The effective interest rate of the liability component is 27.34%.

The fair values of the derivative components of the CB at initial recognition were determined by independent qualified valuer based on the Binomial Pricing model, with significant unobservable inputs and therefore were classified as level 3 of the fair value hierarchy. The key inputs used in the model are as follow:

	At 9 June 2023	At 31 December 2023
Conversion period start date	9 June 2023	9 June 2023
Conversion period end date	9 June 2026	9 June 2026
Maturity date	9 June 2026	9 June 2026
Time to maturity	3 years	2.44 years
Conversion price	HK\$50	HK\$50
Expected volatility	126%	115%
Expected dividend yield	Nil	Nil
Risk-free rate	3.56%	3.15%
Discount rate	29.24%	11.54%
Percentage of principal amount to be repaid at redemption	100%	100%

During the year ended 31 December 2023 and 2022, none of the CBs issued have been converted.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

35. SHARE CAPITAL

	Notes	Number of shares	Amount HK\$'000
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Ordinary shares of HK\$0.05 each (2022: HK\$0.01 each)

Authorised:

At 1 January 2022, 31 December 2022 and 1 January 2023	(b)	198,605,703,079	1,986,056
Share consolidation	(d)	(158,884,562,464)	–
At 31 December 2023		39,721,140,615	1,986,056

	Notes	Number of shares	Amount HK\$'000
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Issued and fully paid:

At 1 January 2022		1,151,859,658	11,518
Issue of shares			
– capital reorganisation	(b)	(921,487,727)	(9,215)
– shares issued under rights issue	(c)	691,115,793	6,911
At 31 December 2022 and 1 January 2023		921,487,724	9,214
Issue of shares			
– share consolidation	(d)	(737,190,180)	–
– loan capitalisation	(e)	9,210,000	461
At 31 December 2023		193,507,544	9,675

	Notes	Number of shares		Amount	
		2023	2022	2023 HK\$'000	2022 HK\$'000
Classified as:					
Share capital		193,347,544	920,687,724	9,667	9,206
Obligation under share repurchase arrangement	(a)	160,000	800,000	8	8
		193,507,544	921,487,724	9,675	9,214

Notes to the Consolidated Financial Statements

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35. SHARE CAPITAL (continued)

Note:

- (a) On 21 May 2019, the Company issued and allotted 80,000,000 ordinary shares of the Company at HK\$0.10 per share (the “Shares”) as settlement sum for HK\$8,000,000 as partial settlement of Mr. Guo’s debt of HK\$17,600,000. As there is a buy-back clause for the Shares by the Company contained in the Settlement Deed, the Shares for HK\$8,000,000 are classified as financial liabilities and presented as obligation under share repurchase arrangement instead of equity under share capital as at 30 June 2022 and 31 December 2021.

On 15 May 2020, the Company received a writ of summons from Mr. Guo demanding an order that the Company buy back the shares from Mr. Guo. As at the date of this report, the Company is liaising with Mr. Guo about the buy-back of the shares.

On 27 June 2022, the Company completed the share consolidation, refer to note (b), as a result of the share consolidation, total number of ordinary shares due to Mr. Guo was adjusted from 4,000,000 ordinary shares to 800,000 ordinary shares. Also, total amount of ordinary shares due to the Mr. Guo was adjusted from HK\$40,000 to HK\$8,000 effect by the capital reduction.

On 28 April 2023, the Company completed the share consolidation, refer to note (d), as a result of the share consolidation, total number of ordinary shares due to Mr. Guo was adjusted from 800,000 ordinary shares to 160,000 ordinary shares to reflect the share consolidation.

- (b) On 27 June 2022, the Company implemented capital reorganisation (the “Capital Reorganisation”), which involved the following:
- (i) every five (5) issued and unissued Existing Shares of par value of HK\$0.01 each will be consolidated into one (1) Consolidated Share of par value of HK\$0.05 each (the “Share Consolidation”);
 - (ii) following the Share Consolidation, the issued share capital of the Company will be reduced by (a) rounding down the number of consolidated shares in the issued share capital of the Company to the nearest whole number by cancelling any fraction of a consolidated share in the issued share capital of the Company; and (b) cancelling the paid-up share capital to the extent of HK\$0.04 on each issued consolidated share such that the par value of each issued Consolidated Share will be reduced from HK\$0.05 to HK\$0.01 (the “Capital Reduction”);
 - (iii) immediately following the Capital Reduction becoming effective, each of the authorised but unissued consolidated shares of par value of HK\$0.05 each in the authorised share capital of the Company will be subdivided into five (5) authorised but unissued adjusted shares of par value of HK\$0.01 each;
 - (iv) the credit transfer whereby the credit arising from the Capital Reduction will be credited to the contributed surplus account of the Company within the meaning of the Companies Act; and
 - (v) the amount standing to the credit of the contributed surplus account be applied in full to set off the accumulated losses of the Company or be applied in any other manner as may be permitted under the Bye-Laws and all applicable laws of Bermuda.

Details of the Capital Reorganisation were contained in the Company’s announcement dated 27 June 2022 and the Company’s circular dated 2 June 2022.

- (c) On 16 August 2022, the Company issued an aggregate of 691,115,793 new ordinary shares (which included 15,898,476 taken rights issue shares and 675,217,317 untaken rights shares by way of placement) of HK\$0.01 each at a price of HK\$0.205 per share to independent parties for repayment of the Group’s outstanding debts. Proceeds from the rights issue net of transaction costs of approximately HK\$2,243,000 amounted to approximately HK\$139,436,000 which was used to settle certain liabilities of the Group. Details of the rights issue were contained in the Company’s announcements dated 15 August 2022 and 27 September 2022 and the Company’s circular dated 8 July 2022.
- (d) On 28 April 2023, pursuant to the special resolution passed and effective on the same date, the Company implemented the share consolidation on the basis that every five (5) issued and unissued Existing Shares of HK\$0.01 each will be consolidated into one (1) Consolidated Share of HK\$0.05 each (the “Share Consolidation 2023”). Details of the Share Consolidation 2023 is disclosed in the announcements of the Company dated 6 April 2023 and 28 April 2023.
- (e) On 23 June 2023, the Company issued and allotted 9,210,000 ordinary shares at the market price of HK\$0.298 each to a creditor in settlement of the amount due to her of approximately HK\$31,100,000 which was included in promissory notes of approximately HK\$7,631,000 and accrual and other payables of approximately HK\$23,469,000 and a gain on extinguishment of financial liabilities by issue of ordinary shares of approximately HK\$28,355,000 was recognised. Details of the loan capitalisation is disclosed in the announcements of the Company dated 9 June 2023 and 23 June 2023.

Notes to the Consolidated Financial Statements

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36. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to continue with the expansion plan of the Group's businesses. In order to fund the daily operation and the expansion of the businesses of the Group, significant amounts of capital in the form of borrowing or equity, or a combination of both, is considered to be necessary in the future. The directors consider such funding for the future operation and expansion will be available as and when required.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, if any, return capital to shareholders, issue new shares, or sell assets to reduce debts. No changes had been made in the objectives, policies and processes during the years ended 31 December 2023 and 2022.

The Group monitors capital using a gearing ratio, which is the Group's net debts (comprising trade payables, accruals and other payables, amount due to an associate, income tax payable, promissory notes, lease liabilities, borrowings, contingent consideration payables and convertible bonds less bank and cash balances) over its total equity. The Group policy is to keep the gearing ratio at a reasonable level. The Group's gearing ratio as at 31 December 2023 was 119.2% (2022: 166.6%).

The Group is not subject to any externally imposed capital requirements.

37. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2023 HK\$'000	2022 HK\$'000
Financial assets:		
Financial assets at amortised costs	219,813	204,119
Equity investments at FVTOCI	–	–
Financial liabilities:		
Financial liabilities at amortised costs	414,795	544,642
Financial liabilities at FVTPL	–	29,058
Derivative component of convertible bonds	6	52

Notes to the Consolidated Financial Statements

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37. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies

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

(i) Market risk

Currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies (Hong Kong Dollars ("**HK\$**"), Renminbi ("**RMB**") and United States Dollars ("**US\$**") of the Group's entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

As HK\$ is pegged with US\$, management is of the view that there is no significant foreign exchange risk to the Group.

At the end of the reporting period, foreign currency denominated financial assets and liabilities, translated into HK\$ closing rates, are as follows:

	2023		2022	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
RMB	113	–	32	–

The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

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37. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

(i) Market risk *(continued)*

Sensitivity analysis

The following table demonstrates the sensitivity as at the end of each of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's post-tax loss (due to changes in the fair value of monetary assets) and the Group's entities.

	Increase/(decrease) in rate of foreign currency %	Impact on post-tax (loss)/profit HK\$'000
At 31 December 2023		
If HK\$ weakens against RMB	5	6
If HK\$ strengthens against RMB	(5)	(6)
At 31 December 2022		
If HK\$ weakens against RMB	5	2
If HK\$ strengthens against RMB	(5)	(2)

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings, promissory notes and lease liabilities. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate borrowings.

The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

No sensitivity analysis of interest rate is presented as change in interest rate has no material effect on pre-tax loss as a result of change in interest rate applied to the Group's variable-rate borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

(ii) Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, bills receivables, deposits and other receivables and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables

The Group's concentration of credit risk decreased compare to last year as 17% (2022: 24%) and 62% (2022: 68%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of 1 month, extending up to 3 months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The Group also performs impairment assessment under ECL model on trade receivables with significant balances and credit-impaired individually or based on provision matrix. Except for items that are subject to individual evaluation, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure. Impairment of approximately HK\$1,190,000 was recognised (2022: HK\$164,000 during the year. Details of the quantitative disclosures are set out below in this note.

Bills receivables

The credit risk associated with bills receivables, which are all bank acceptance drafts, is limited because the accepting bank will cashes the bills unconditionally when the entity presents these bills.

Bank balances

The credit risk of the Group on liquid funds is limited because the majority of the counterparties are international banks and state-owned banks with good reputation.

Other receivables

For other receivables approximately of HK\$79,378,000 (2022: HK\$157,681,000), the management makes period individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also qualitative and quantitative information that is reasonable and supportive forward-looking information. The management believes that there has been a significant increase in credit risk of amounts approximately of HK\$26,264,000 (2022: Nil) since initial recognition and the Group provided impairment based on the internal credit rating and the amounts being credit-impaired. For the year ended 31 December 2023, the Group assessed the ECL for other receivables to be credit-impaired and an impairment loss of approximately HK\$26,264,000 was recognised (2022: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

(ii) Credit risk and impairment assessment *(continued)*

Internal credit rating	Description	Trade and bills receivables	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

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

2023	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK\$'000
Financial assets at amortised costs				
Trade receivables	25	Low risks	Lifetime ECL	14,722
		Doubtful	Lifetime ECL	25,429
		Loss	Lifetime ECL – credit-impaired	10,976
Bill receivables	25	Low risks	12-month ECL	17,763
Deposits and other receivables	26	Low risks	12-month ECL	50,717
		Loss	Lifetime ECL – credit-impaired	25,940
Bank balances and cash	27	Low risks	12-month ECL	111,867

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

(ii) Credit risk and impairment assessment *(continued)*

2022	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK\$'000
Financial assets at amortised costs				
Trade receivables	25	Low risks	Lifetime ECL	50,221
		Loss	Lifetime ECL – credit-impaired	10,700
Bill receivables	25	Low risks	12-month ECL	7,108
Deposits and other receivables	26	Low risks	12-month ECL	47,732
Bank balances and cash	27	Low risks	12-month ECL	99,058

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers have common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL (not credit-impaired).

Gross carrying amount	2023		2022	
	Average loss rate	Gross trade receivables	Average loss rate	Gross trade receivables
Current (not past due)	1%	13,991	0%	40,568
Within 90 days past due	2%	21,148	0%	6,856
91 days to 180 days past due	0%	2,195	0%	2,532
181 days to 360 days past due	3%	2,091	0%	265
Over 360 days past due	94%	11,702	100%	10,700
		51,127		60,921

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2023, the Group provided approximately HK\$1,190,000 (2022: HK\$164,000) impairment allowance for trade receivables, based on the provision matrix.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

(ii) Credit risk and impairment assessment *(continued)*

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL HK\$'000
As at 1 January 2022	11,205
Impairment losses reversed	164
Exchange difference	(669)
As at 31 December 2022 and 1 January 2023	10,700
Impairment loss recognised	1,190
Exchange difference	(229)
As at 31 December 2023	11,661

Changes in the loss allowance for trade receivables are mainly due to:

	2023 HK\$'000	2022 HK\$'000
Changes in average loss rate/Net remeasurement of loss allowance	1,190	164
Exchange difference	(229)	(669)
	961	(505)

The following table shows the movement in lifetime ECL that has been recognised for other receivables under the general approach.

	Lifetime ECL HK\$'000
As at 1 January 2023	–
Impairment loss recognised	26,264
Exchange difference	(324)
As at 31 December 2023	25,940

Changes in the loss allowance for other receivables are mainly due to:

	2023 HK\$'000	2022 HK\$'000
Net remeasurement of loss allowance	26,264	–
Exchange difference	(324)	–
	25,940	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

(iii) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Over 5 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Total carrying amount HK\$'000
At 31 December 2023						
Trade payables	22,115	–	–	–	22,115	22,115
Accruals and other payables	117,517	–	–	–	117,517	117,517
Amount due to an associate	172	–	–	–	172	172
Lease liabilities	823	602	391	1,500	3,316	2,569
Borrowings	143,354	3,975	–	3,912	151,241	141,817
Convertible bonds – liability component	51,000	68,000	51,000	–	170,000	130,605
	334,981	72,577	51,391	5,412	464,361	414,795
At 31 December 2022						
Trade payables	15,037	–	–	–	15,037	15,037
Accruals and other payables	159,764	–	–	–	159,764	159,764
Amount due to an associate	177	–	–	–	177	177
Promissory notes	164,820	–	–	–	164,820	164,820
Lease liabilities	1,431	1,300	325	1,051	4,107	3,940
Borrowings	100,797	1,538	5,781	5,693	113,809	109,743
Convertible bonds – liability component	–	–	119,000	–	119,000	91,161
	442,026	2,838	125,106	6,744	576,714	544,642

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For the year ended 31 December 2023

38. FAIR VALUE MEASUREMENTS

Some of the Group's financial assets and financial liabilities, property, plant and equipment and investment properties are measured at fair value at the end of the reporting period.

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

(a) Disclosures of level in fair value hierarchy

	Fair value measurements using:			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
At 31 December 2023				
Recurring fair value measurements:				
Leasehold land and building — Hong Kong	—	—	64,400	64,400
Investment properties — Hong Kong	—	—	3,900	3,900
— The PRC	—	—	8,550	8,550
	—	—	12,450	12,450
Biological assets	—	—	5,051	5,051
Convertible bonds — derivative component	—	—	6	6
At 31 December 2022				
Recurring fair value measurements:				
Leasehold land and building — Hong Kong	—	—	63,200	63,200
Investment properties — Hong Kong	—	—	5,000	5,000
— The PRC	—	—	8,686	8,686
	—	—	13,686	13,686
Biological assets	—	—	5,198	5,198
Contingent consideration payables	—	—	29,058	29,058
Convertible bonds — derivative component	—	—	52	52

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

38. FAIR VALUE MEASUREMENTS *(continued)*

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

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Contingent consideration payables HK\$'000	Biological assets HK\$'000	Convertible bonds – derivative component HK\$'000
At 1 January 2022	12,471	57,600	84,683	–	16
Total gains or losses recognised					
in profit or loss	1,915	–	(12,271)	–	(168)
in other comprehensive income	–	11,760	–	–	–
Issued	–	–	–	–	204
Transfer to CB	–	–	(43,354)	–	–
Additions	–	–	–	5,198	–
Adjustment on revaluation	–	(6,160)	–	–	–
Exchange differences	(700)	–	–	–	–
At 31 December 2022 and 1 January 2023	13,686	63,200	29,058	5,198	52
Total gains or losses recognised					
in profit or loss	(989)	–	(5,005)	–	(112)
in other comprehensive income	–	8,258	–	–	–
Issued	–	–	–	–	66
Transfer to CB	–	–	(24,053)	–	–
Adjustment on revaluation	–	(7,058)	–	–	–
Exchange differences	(247)	–	–	(147)	–
At 31 December 2023	12,450	64,400	–	5,051	6

The total gains or losses recognised in other comprehensive income are presented in surplus on revaluation of properties in the consolidated statement of profit or loss and other comprehensive income.

The total gains or losses recognised in profit or loss including those for assets and liabilities held at end of reporting period are presented in other gains/(loss) in the consolidated statement of profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

38. FAIR VALUE MEASUREMENTS *(continued)*

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements

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

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

At 31 December 2023

Description	Valuation technique	Significant unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value HK\$'000
Investment properties — Hong Kong	Direct comparison approach	Market price of car park	HK\$1,400,000 to HK\$2,300,000 per unit	Increase	3,900
Investment properties — the PRC	Direct comparison approach	Market price of office	RMB11,000 (equivalent to HK\$12,058) per square meter)	Increase	8,550
Leasehold land and building — Hong Kong	Direct comparison approach	Market price of commercial units	HK\$1,400,000 per unit	Increase	1,400
Leasehold land and building — Hong Kong	Direct comparison approach	Market price of commercial units	HK\$4,400 per square feet	Increase	63,000
Biological assets	Direct comparison approach	Cost	RMB25 to RMB100 per plant	Increase (Note 24)	5,051
Convertible bonds — derivative component	Binomial option pricing model	Expected volatility of share price	115%	Increase (Note a)	6

(a) If the expected volatility of share price was 5% higher/lower and the other variables were held constant, the derivative component of convertible bonds would increase/decrease by HK3,000, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

38. FAIR VALUE MEASUREMENTS *(continued)*

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements *(continued)*

At 31 December 2022

Description	Valuation technique	Significant unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value HK\$'000
Investment properties — Hong Kong	Direct comparison approach	Market price of car park	HK\$1,600,000 to HK\$2,900,000 per unit	Increase	5,000
Investment properties — the PRC	Direct comparison approach	Market price of office	RMB10,900 (equivalent to HK\$12,296) per square meter)	Increase	8,686
Leasehold land and building — Hong Kong	Direct comparison approach	Market price of commercial units	HK\$1,600,000 per unit	Increase	1,600
Leasehold land and building — Hong Kong	Direct comparison approach	Market price of commercial units	HK\$4,300 per square feet	Increase	61,600
Contingent consideration payables	Monte Carlo simulation — discounted probability-adjusted profit or loss projection	Simulated profit of Hubei Jincaotang	RMB50,584,164	Decrease (Note a)	29,058
		Fair value of the underlying CB	HK\$9,340,165 to HK\$43,436,262	Increase (Note b)	
Biological assets	Direct comparison approach	Cost	RMB25 to RMB100 per plant	Increase (Note 24)	5,198
Convertible bonds — derivative component	Binomial option pricing model	Expected volatility of share price	126.016%	Increase (Note c)	52

Notes:

- (a) A significant increase/decrease in the simulated profit of Hubei Jincaotang used in isolation would result in a significant increase/decrease in the fair value measurement of the contingent consideration payables. A 5% increase in the simulated profit of Hubei Jincaotang holding all other variables constant would increase the carrying amount of the contingent consideration payables by HK\$718,000. A 5% decrease in the simulated profit of Hubei Jincaotang holding all other variables constant would decrease the carrying amount of the contingent consideration payables by HK\$1,735,000.
- (b) A significant increase/decrease in the fair value of underlying CB used in isolation would result in a significant increase/decrease in the fair value measurement of the contingent consideration payables. A 5% increase in the fair value of underlying CB holding all other variables constant would increase the carrying amount of the contingent consideration payables by HK\$4,234,000, and vice versa.
- (c) If the expected volatility of share price was 5% higher/lower and the other variables were held constant, the derivative component of convertible bonds would increase/decrease by HK\$5,000, respectively.

Notes to the Consolidated Financial Statements

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39. SHARE OPTION SCHEME

The Company operates two share option schemes, namely the 2012 Share Option Scheme and the 2013 Share Option Scheme (collectively, the “Schemes”) for the purpose of providing incentives and rewards to eligible participants who are invited at directors’ discretion. The 2012 Share Option Scheme became effective on 28 May 2002 and was expired on 27 May 2012. Notwithstanding the expiration of the 2012 Share Option Scheme, its provisions would remain in force in all respects with respect to the outstanding share options granted under the 2012 Share Option Scheme. Due to the expiry of the 2012 Share Option Scheme, the Company adopted the 2013 Share Option Scheme which became effective on 31 May 2013, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants include the full-time and part-time employees, executives, officers, directors, business consultants, agents, legal and financial advisers of the Company and the Company’s subsidiaries.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive officer or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company’s shares on the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

The 2013 Share Option Scheme expired on 31 May 2023. There was no share option outstanding as at 31 December 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of Financial Position of the Company

	2023 HK\$'000	2022 HK\$'000 (Restated)
Non-current assets		
Investments in subsidiaries	197,785	197,795
Amount due from subsidiaries	227,528	477,084
	425,313	674,879
Current assets		
Prepayments, deposits and other receivables	240	17,235
Bank balances and cash	11	5
	251	17,240
Current liabilities		
Accruals and other payables	60,088	96,475
Amount due to subsidiaries	41,066	29,835
Promissory notes	–	164,820
Borrowings	30,858	10,114
Contingent consideration payables	–	29,058
	132,012	330,302
Net current liabilities	(131,761)	(313,062)
Total assets less current liabilities	293,552	361,817
Non-current liabilities		
Convertible bonds	130,611	91,213
Net assets	162,941	270,604
Equity		
Share capital	9,667	9,206
Reserves	153,274	261,398
Total equity	162,941	270,604

Zhang Qijun
Director

Liu Mingqing
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(continued)*

Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000 (Restated)	Total HK\$'000
At 1 January 2022	1,650,259	125,161	(1,594,028)	181,392
Total comprehensive loss for the year	–	–	(53,742)	(53,742)
Capital reorganisation (note 35(b))	–	–	1,223	1,223
Issue of shares from rights issue (note 35(c))	132,525	–	–	132,525
At 31 December 2022 and 1 January 2023	1,782,784	125,161	(1,646,547)	261,398
Total comprehensive loss for the year	–	–	(110,408)	(110,408)
Loan capitalisation (note 35(e))	2,284	–	–	2,284
At 31 December 2023	1,785,068	125,161	(1,756,955)	153,274

41. CAPITAL COMMITMENT

The Group did not have any significant capital commitment at 31 December 2023 and 2022.

42. CONTINGENT LIABILITIES

As at 31 December 2023 and 31 December 2022, the Group had no material contingent liabilities.

43. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the year:

	2023 HK\$'000	2022 HK\$'000
Product development, sale and marketing services fee paid to Miracles for Fun USA, Inc. (note)	5,429	5,426

Note:

The sole owner of Miracles for Fun USA, Inc. is the director and beneficial owner of 49% (2022: 49%) equity interest in the Company's subsidiary, Better Sourcing Worldwide Limited.

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43. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balance with related parties

(i) Included in prepayments, deposits and other receivables

	2023 HK\$'000	2022 HK\$'000
Amount due from Miracles for Fun USA, Inc.	159	110

(ii) Included in deposit and other receivables

	2023 HK\$'000	2022 HK\$'000
Amount due from Multijoy	10,618	10,618

(iii) Included in accruals and other payables

	2023 HK\$'000	2022 HK\$'000
Amounts due to directors (Note)	1,104	919
Amounts due to Miracles for Fun USA, Inc.	455	–
Amount due to a relative of a director, Li Pik Ha (Note)	366	366
	1,925	1,285

Notes:

The amounts due are unsecured, interest free and repayable on demand.

(c) Key management compensation

	2023 HK\$'000	2022 HK\$'000
Salaries, allowances and benefits in kind	15,740	15,519
Retirement benefits scheme contributions	1,013	776
	16,753	16,295

(d) Guarantee provided by related parties

As at 31 December 2023, the Group's borrowings of approximately HK\$8,907,000 (2022: HK\$11,443,000) were secured by a personal guarantee by directors or senior management of the Company's subsidiaries.

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44. NOTES TO THE CONSOLIDATION STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Lease liabilities HK\$'000	Promissory notes HK\$'000	Borrowings HK\$'000	Convertible bonds HK\$'000	Total HK\$'000
At 1 January 2022	4,798	250,621	118,487	42,327	416,233
Additions	1,260	–	13,969	–	15,229
Change in cash flows	(2,334)	–	(21,854)	–	(24,188)
Non-cash changes					
– Finance leases charges (included in interest expense)	174	–	–	–	174
– Exchange difference	42	–	(859)	–	(817)
– Fair value change	–	–	–	(168)	(168)
– Transfer from contingent consideration payables	–	–	–	43,354	43,354
Settlement of promissory notes					
– by cash	–	(85,801)	–	–	(85,801)
Imputed interest	–	–	–	5,700	5,700
At 31 December 2022 and 1 January 2023	3,940	164,820	109,743	91,213	369,716
Additions	–	–	21,883	–	21,883
Change in cash flows	(1,491)	–	(9,556)	–	(11,047)
Non-cash changes					
– Finance leases charges (included in interest expense)	148	–	–	–	148
– Exchange difference	(28)	–	559	–	531
– Fair value change	–	–	–	(112)	(112)
– Transfer from other payables	–	–	19,188	–	19,188
– Transfer from contingent consideration payables	–	–	–	24,053	24,053
Settlement of promissory notes					
– by cash	–	(5,189)	–	–	(5,189)
– issue of new shares	–	(7,631)	–	–	(7,631)
– by cancellation	–	(152,000)	–	–	(152,000)
Imputed interest	–	–	–	15,457	15,457
At 31 December 2023	2,569	–	141,817	130,611	274,997

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

44. NOTES TO THE CONSOLIDATION STATEMENT OF CASH FLOWS *(continued)*

(b) Major non-cash transactions

(i) Convertible bonds

As details in note 34, total amount of contingent consideration payables were transferred to CB approximately HK\$24,053,000 (2022: approximately HK\$43,354,000) were issued to the vender subject to the profit guarantee arrangement during the year ended 31 December 2023.

(ii) Cancellation of promissory notes

As details in notes 26(a) and 30, total amount of trade deposits and promissory notes of approximately HK\$60,000,000 were net-off during the year ended 31 December 2023.

45. LITIGATIONS

(a) Guo Jingsheng

On 8 June 2016 and 19 July 2016, the Company and a director of the Company received from Mr. Guo a writ of summons and an indorsement of claim issued by the High Court, respectively, against the Company as borrower and the director Yu Wan Kong, Dennis of the Company as guarantor for the outstanding amount of borrowing including interests of approximately HK\$13,921,000.

A deed of settlement (the "**Settlement Deed**") was made between the Company, the director of the Company and Mr. Guo on 29 April 2019. Pursuant to the Settlement Deed, the Company would issue 80,000,000 ordinary shares of the Company at HK\$0.10 per share (the "**Shares**") for the settlement of HK\$8,000,000 as partial settlement of Mr. Guo's debt of approximately HK\$17,600,000 as at 29 April 2019. The Settlement Deed contains a buy-back clause for the Shares by the Company should the quoted market price of the Company's shares fail to reach at least HK\$0.10 per share within one year from the date of issue of the Shares. The Company issued and allotted the Shares to Mr. Guo on 21 May 2019. On 15 May 2020 and 8 June 2020, the Company received a writ of summons from Mr. Guo demanding an order that the Company buy back the Shares from Mr. Guo.

As at the date of this report, the Company is liaising with Mr. Guo about the buy-back of the Shares and the remaining outstanding amount of borrowings of approximately HK\$9,600,000, which is included in accruals and other payables as at 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

45. LITIGATIONS *(continued)*

(b) Everbright Centre

Pursuant to a tenancy agreement dated 23 September 2014 entered into between Everbright Centre Company Limited ("**Everbright Centre**") (formerly known as Wing Siu Company Limited) as landlord and Super Dragon Management Limited ("**Super Dragon**"), a wholly-owned subsidiary of the Company, as tenant, and the Company as guarantor to Super Dragon, for a lease of premises for a term of three years from 15 December 2014 to 14 December 2017.

On 8 August 2016, Super Dragon and the Company received from Everbright Centre a writ of summons issued by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region (the "**High Court**") with an indorsement of claim against Super Dragon and the Company jointly for (i) vacant possession of the premises; (ii) the outstanding total amount of rent, management fees, interests and other charges of approximately HK\$3,886,000 as at 1 August 2016; (iii) rent, management fees and rates to the date of delivery of vacant possession of the Wanchai Property; (iv) damage for breach of the tenancy agreement to be assessed; (v) interest; (vi) costs; and (vii) further or other relief.

The Company vacated from the premises in the third quarter of 2017 and has settled part of the amount claimed above. During the year, the Company settled part of the amount approximately HK\$250,000. As at 31 December 2023, the accumulated interest, rent and administrative fees accrued for the postponement of payment is approximately HK\$1,240,000 (2022: HK\$795,000) which is included in accruals and other payables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

46. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2023 and 2022 are as follows:

Company name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest		Principal activities
			2023	2022	
Super Dragon Management Limited	BVI, limited liability company	1 ordinary share of US\$1 each	100%	100%	Provision of management service, Hong Kong
Better Sourcing Worldwide Limited	Hong Kong, limited liability company	HK\$100	51%	51%	Trading of gifts and toys, Hong Kong
Kiu Hung Industries Limited	Hong Kong, limited liability company	HK\$1,000	100%	100%	Trading of gifts and toys, Hong Kong
Kiu Hung Toys Company Limited	Hong Kong, limited liability company	HK\$2 ordinary share and HK\$10,000 non-voting deferred share	100%	100%	Investment holding, Hong Kong
Toland International Limited	Hong Kong, limited liability company	HK\$4,200,000	70%	70%	Trading of flags and garden products, Hong Kong
福建奇嘉禮品玩具有限公司 (Fujian Kcare Gifttoys Co., Ltd.*)	The PRC, limited liability company	RMB10,000,000	100%	100%	Manufacture and trading of gifts and toys, the PRC
福建綠森農業科技有限公司 (Fujian Lusen Agricultural Science and Technology Co., Ltd*)	The PRC, limited liability company	RMB50,000,000	100%	100%	Forestry products, wholesale, beverage retail, the PRC
Marketing Resource Group Inc.	The USA, limited liability company	350,000 ordinary shares of US\$1 each	51%	51%	Trading of flags and garden products, the USA
Hubei Jincaotang	The PRC, limited liability company	RMB30,000,000	51%	51%	Development, processing and manufacturing of Chinese herb, the PRC

* For identification purpose

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

46. INVESTMENTS IN SUBSIDIARIES *(continued)*

The table below shows details of a non-wholly-owned subsidiary of the Group which has material non-controlling interest:

Name of subsidiary	Place of establishment/ registration and principal place of business	Proportion of ownership interests held by the non- controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2023	2022	2023	2022	2023	2022
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hubei Jincaotang	PRC	49%	49%	24,590	19,077	108,000	82,449

Summarised financial information in respect of Hubei Jincaotang that has material non-controlling interests is set out below. The summarised financial information below, prepared in accordance with the significant accounting policies of the Group, represents amounts before intragroup eliminations.

Hubei Jincaotang

Financial information of statement of profit or loss and other comprehensive income for the years ended 31 December 2023 and 2022

	2023 HK\$'000	2022 HK\$'000
Revenue	121,546	127,862
Expenses and taxation	(71,363)	(88,929)
Profit for the year	50,183	38,933
Profit for the year attributable to:		
Owners of the Company	25,593	19,856
Non-controlling interests of the Group	24,590	19,077
	50,183	38,933
Other comprehensive loss attributable to owners of the Company	(2,900)	(5,031)
Other comprehensive loss attributable to non-controlling interests	(2,787)	(4,833)
Other comprehensive loss for the year	(5,687)	(9,864)
Total comprehensive income attributable to owners of the Company	22,693	14,825
Total comprehensive income attributable to non-controlling interests	21,803	14,244
Total comprehensive income for the year	44,496	29,069

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

46. INVESTMENTS IN SUBSIDIARIES *(continued)*

Hubei Jincaotang *(continued)*

Financial information of statement of financial position as at 31 December 2023 and 2022

	2023 HK\$'000	2022 HK\$'000
Non-current assets	76,014	34,930
Current assets	149,527	143,412
Non-current liabilities	(703)	(1,508)
Current liabilities	(11,338)	(7,830)
Net assets	213,500	169,004
Equity attributable to:		
Owners of the Company	109,248	86,555
Non-controlling interests of the Group	104,252	82,449
Total equity	213,500	169,004

Financial information of statement of cash flows

	2023 HK\$'000	2022 HK\$'000
Net cash inflow from operating activities	36,405	30,725
Net cash outflow from investing activities	(40,230)	(2,369)
Net cash inflow from financing activities	3,092	–
Net cash (outflow)/inflow	(733)	28,356

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

47. EVENTS AFTER THE REPORTING PERIOD

(i) Acquisition of Jiangxi Jiukai Food Co., Ltd

On 10 March 2022, the Group entered into a sale and purchase agreement with an independent third party to acquire 49% of the equity interest in Jiangxi Jiukai Food Co., Ltd (the “**Target Company**”), a company incorporated in the PRC with limited liability at a consideration of HK\$45,750,000 to be settled by way of HK\$15,250,000 by way of issue of shares in the Company and HK\$30,500,000 by way of the issue of convertible bonds in the Company. The Target Company is principally engaged in the food and beverage research and development, production, marketing, and sale of food and beverage products. The Target Company also provides soft beverage products processing services for other beverage companies. Details of the proposed acquisition are set out in the Company’s announcement dated 10 March 2023, 21 March 2023, 28 April 2023 and 30 June 2023. As at the report date, the proposed acquisition is not yet completed.

(ii) Share Consolidation and Adjustment on Existing Convertible Bonds

Pursuant to the special general meeting held on 16 January 2024, an ordinary resolution was passed for the share consolidation of the Company’s ordinary shares on the basis that every two (2) issued and unissued Existing Shares of HK\$0.05 each will be consolidated into one (1) Consolidated Share of HK\$0.1 each (“**Share Consolidation**”). The effective date of the Share Consolidation was 18 January 2024.

Upon the completion of the Share Consolidation, the existing convertible bonds with the conversion price of HK\$50 per existing share will be adjusted to HK\$100 per consolidated share and the number of consolidated shares that can be issued upon full exercise of the conversion right attached to the existing convertible bonds will be adjusted from 3,400,000 existing shares to 1,700,000 consolidated shares.

Details of the share consolidation and adjustment on existing convertible bonds are set in the circular of the Company dated 27 December 2023 and in the Company’s announcement dated 16 January 2024.

(iii) Placing of Convertible Bonds

On 29 August 2023, the Company entered into the placing agreement as supplemented by the Supplemental Placing Agreement on 20 October 2023 and the Second Supplemental Placing Agreement dated 18 December 2023) with the Placing Agent, pursuant to which the Placing Agent has conditionally agreed to procure, on a best efforts basis, not less than six placees to subscribe for the Convertible Bonds in an aggregate principal amount of up to HK\$45,000,000 at the Conversion Price of HK\$0.15 per Share (subject to adjustment). Details of the share consolidation and adjustment on existing convertible bonds are set in the circular of the Company dated 27 December 2023 and announcements of the Company dated 29 August 2023, 19 September 2023, 20 October 2023, 17 November 2023, 8 December 2023 and 18 December 2023.

An ordinary resolution was passed at the special general meeting held on 18 January 2024 for the placing the convertible bonds. Details are set out in the announcement of the Company dated 16 January 2024. The placing of convertible bonds was completed on 6 February 2024.

48. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 28 March 2024.

Five Years Financial Summary

The following is a summary of the published consolidated results and statement of assets and liabilities of the Group for the last five years:

RESULTS

	2023 HK\$'000	Year ended 31 December			
		2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000
Revenue	383,923	420,904	323,718	203,351	199,952
Profit/(loss) before income tax	69,074	(29,393)	(219,463)	(69,075)	(302,187)
Income tax expenses	(3,373)	(9,108)	(1,033)	(1,027)	(138)
Profit/(loss) for the year	65,701	(38,501)	(220,496)	(70,102)	(302,325)
Attributable to:					
Owners of the Company	37,213	(59,521)	(226,754)	(71,776)	(301,937)
Non-controlling interests	28,488	21,020	6,258	1,674	(388)
	65,701	(38,501)	(220,496)	(70,102)	(302,325)

ASSETS AND LIABILITIES

	2023 HK\$'000	As at 31 December			
		2022 HK\$'000	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000
Total assets	770,251	879,939	956,439	852,889	827,873
Total liabilities	(430,305)	(594,931)	(744,245)	(558,898)	(496,166)
Net assets	339,946	285,008	212,194	293,991	331,707
Equity attributable to owners of the Company	214,208	185,734	135,127	286,908	326,298
Non-controlling interests	125,768	99,274	77,067	7,083	5,409
Total equity	339,976	285,008	212,194	293,991	331,707