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
2022

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS:

Mr. Zhang Qijun *(Chairman)*
Mr. Liu Mingqing
Ms. Lai Yee Man

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Wang Xiao Ning
Mr. Kong Chun Wing
Ms. Chen Yuxin

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 617, 6/F
Seapower Tower
Concordia Plaza
1 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	**2022** **HK$'000**	2021 HK$'000	Change Increase/ (Decrease)
Revenue	**420,904**	323,718	30.02%
Gross profit	**157,020**	91,922	70.82%
Loss for the year	**(38,501)**	(220,496)	(82.54%)
Loss attributable to shareholders	**(59,521)**	(226,754)	(73.75%)
Basic loss per share (in HK cents)	**(11.74)**	(115.48)	(89.83%)
Total assets	**879,939**	956,439	(8.00%)
Total equity	**285,008**	212,194	34.31%

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 2022 (the "**Year**").

RESULTS AND DIVIDENDS

For the year ended 31 December 2022, the Group recorded turnover of approximately HK$420.9 million (2021: HK$323.7 million), representing an increase of approximately 30% as compared with last year. The Group's loss attributable to equity holders of the Company for the Year was approximately HK$59.5 million (2021: HK$226.8 million), representing a decrease of approximately HK$167.3 million comparing to last year.

The decrease in loss attributable to equity holders of the Company for the Year was mainly attributable to (i) no impairment recognised in respect of investment in associates; and (ii) the integration of the Chinese Herb business into the Group which contributed to segment profits of HK$36.8 million, during the Year. Basic loss per share for the Year was 11.74 HK cents (2021: 115.48 HK cents, restated). The Board has resolved not to pay any final dividend for the Year (2021: Nil).

BUSINESS REVIEW

The gross profit ratio of the toys and gifts business was approximately 34.5% for the Year which was comparable to the previous year of 29.3%.

The gross profit ratio of the Chinese Herbs business was approximately 41.5% for the Year as compared with 24.4% for 2021.

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:

On 10 March 2023, the Purchaser, being a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendor, pursuant to which the Purchaser has conditionally agreed to acquire from the Vendor, and the Vendor has conditionally agreed to sell the Sale Interests, representing 49% of the total equity interests in the Target Company which 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. At the report date, the acquisition was still in progress.

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, 31 March 2023

Management Discussion and Analysis

BUSINESS OVERVIEW

While people around the world speculated that the effect of the COVID-19 would gradually fade out in 2022, the Omicron variant of the coronavirus swept through the globe at the start of 2022 and brought massive waves of infections in different countries. Despite the fact that people recognized the endemic nature of the coronavirus and have conformed to "co-living with the virus", the high death rate of the Omicron variant and the dynamic nature of the variants of the coronavirus have protracted the recovery pace of the global business environment.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2022 (the "**Year**"), the Group recorded turnover of approximately HK$420.9 million (2021: HK$323.7 million), representing an increase of approximately 30.0% as compared with last year.

The Group's loss attributable to equity holders of the Company for the Year was approximately HK$59.5 million (2021: HK$226.8 million), representing a decrease of approximately HK$167.3 million comparing to last year. The decrease in loss attributable to equity holders of the Company for the Year was mainly attributable to (i) the increase in revenue attributable by the Chinese herbs related business, amounting to approximately HK$127.9 million; and (ii) the decrease in share of loss of associates of the Group, amounting to approximately HK$19.5 million, during the Year. Basic loss per share for the Year was HK cents 11.74 (2021: HK cents 115.48 (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$293.0 million (2021: HK$264.3 million), representing an increase of approximately 10.9% comparing to last year. The increase in turnover was mainly attributable to the increase in revenue generated from the North America. The gross profit margin was increased, which was 35.5% (2021: 29.3%) during the Year, showing the production and logistic cost was decreased while the market of North America has recovered since the global outbreak of Coronavirus.

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 2022, the Investment Group was still unable to generate cash flows to the Group due to the absence of the mining rights of coal mines concerned. Fair value loss 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 was recognised for the years ended 31 December 2021 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$5.8 million for the Year (2021: loss of HK$7.5 million).

(b) USO Management & Holding Co. Ltd

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 COVID-19 pandemic, the begin construction date of the luxury hotel and casino, as well as the first 100 residential villas was delayed, and expected to be taken place in January 2023. 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$Nil million for the Year (2021: HK$139 million). The Group's share of result of loss amounted to approximately HK$10.6 million for the Year (2021: loss of HK$70.6 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.

The Group's share of result of loss amounted to HK$0.2 million (2021: loss of HK$0.2 million) for the year.

(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.

The Group's share of result of loss amounted to HK$2.9 million for the Year (2021: loss of HK$10.2 million).

(c) ***Outbound tourism***

The Group has discussed with and instructed its legal adviser to take further legal action against the vendor of Eagle Praise Group regarding the Rescission of Agreements and the promissory notes of approximately of HK$92 million issued to the vendor of the Eagle Praise Group. The Group will make further announcement(s) to update the development of the Rescission of Agreements as and when appropriate.

There will be a contingent gain on the rescission of the promissory note of approximately HK$92 million.

Culture

Turnover from culture business for the Year was approximately HK$Nil (2021: HK$31,000), representing a decrease of 100% comparing to last year.

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$127.9 million (2021: HK$59.4 million).

Geographical Information

During the Year, the Group recorded revenue in North America (includes the USA and Canada) of approximately HK$292 million as compared to approximately HK$263 million last year and represented approximately 69.3% (2021: approximately 81.3%) of the Group's total revenue. Revenue in the PRC (including Hong Kong) amounted to approximately HK$128.8 million for the Year as compared to approximately HK$60.4 million last year and represented approximately 30.6% (2021: approximately 18.6%) 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$47.1 million (2021: approximately HK$34.4 million). The increase was mainly attributable by the Chinese herbs related business and sales commissions from toys and gifts business and sales commissions from toys and gifts business during the Year.

Administrative Expenses

Administrative expenses for the Year increased by approximately 0.4% to approximately HK$78.8 million as compared to approximately HK$78.5 million in the previous year. The increase in administrative expenses was mainly attributable by Chinese herbs related business during the Year.

Finance Costs

Finance costs for the Year increased by approximately 6.1% to approximately HK$46.8 million as compared to approximately HK$44.1 million in the previous year. The increase in finance costs was mainly attributable by the effective interest of convertible bonds 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 2022, the Group had bank and cash balances of approximately HK$99.1 million (2021: HK$201.1 million). The Group's bank and cash balances were mostly denominated in Hong Kong dollars, United States Dollars and Renminbi.

As at 31 December 2022, the Group's borrowings amounted to approximately HK$109.7 million (2021: HK$118.5 million). The Group's borrowings were mainly denominated in Hong Kong dollars, United States Dollars and Renminbi.

As at 31 December 2022, the Group's promissory notes amounted to approximately HK$164.8 million (2021: HK$250.6 million) in aggregate. The Group's promissory notes were denominated in Hong Kong dollars.

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 2022 was 166.6% (2021: 245.5%).

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

(i) Proposed share consolidation

On the 10 March 2023, the directors of the Company resolved to propose a share consolidation on the basis that every five (5) issued and unissued existing Shares of HK$0.01 each be consolidated into one (1) Consolidated Share of HK$0.05 each in the view that the Shares had been traded at below HK$0.10 in the past three months (based on the closing price per Share as quoted on the Stock Exchange). An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the Consolidated Shares. Details of the proposed share consolidation are set out in the Company's announcement dated 10 March 2023 and 17 March 2023.

(ii) 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 and 21 March 2023. As at reporting date, the proposed acquisition is not yet completed.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2022 and 2021.

CAPITAL COMMITMENT

As at 31 December 2022 and 2021, the Group had no significant capital commitment.

DIVIDEND

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

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 2022 and 2021.

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 27 June 2022, 921,487,727 issued ordinary shares had been cancelled under Share Consolidation and Capital Reduction and Capital Subdivision becoming effective at the same date, based on the result of the special general meeting held on 23 June 2022.

On 16 August 2022, 15,898,476 Right Shares were allotted and issued to the qualifying Shareholders whose acceptance being received by way of the Rights Issue at the Subscription Price of HK$0.205 per Rights Share, based on the result of the special general meeting held on 23 June 2022.

On 16 August 2022, 675,217,317 Rights Shares were allotted and issued to the Placees at the Subscription Price of HK$0.205 per Subscription Share pursuant to the terms of the Placing Agreement dated 29 July 2022.

All these ordinary shares issued by the Company during the years rank pari passu with the existing ordinary shares in all respects.

Management Discussion and Analysis

As at 31 December 2022, the capital structure of the Company was constituted of 921,487,724 ordinary shares of HK$0.01 each. Apart from the ordinary shares in issue, the capital instruments in issue of the Company include the share options to subscribe for the Company's shares.

On 19 May 2019, the existing limit on the grant of share options under the share option scheme adopted by the Company on 31 May 2013, was refreshed by the resolution passed at the EGM held at that date, and shall not exceed 10% of the total number of Shares in issue of the Company as at the date of the passing of this resolution.

At 31 December 2022, no share option was remained outstanding (2021: Nil). The share option scheme of the Company with a scheme life of ten years approved by the shareholders of the Company on 19 May 2019 will expire on 18 May 2029.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 December 2022, the Group had a total of 399 employees (2021: 386 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 44, 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.

Ms. Lai Yee Man ("Ms. Lai"), aged 33, holds a bachelor degree in Arts with Honors (Accounting) from University of Bedfordshire and executive diploma in accountancy from Institute of Advanced Executive Education, Hong Kong Polytechnic University. Ms. Lai is a Certified Sustainable Development Planner of the World Institute of Sustainable Development Planners. Prior to joining the Company, Ms. Lai had served as a finance manager of China Carbon Neutral Development Group Limited (HKEx stock code: 1372) and PacRay International Holdings Limited (HKEx stock code: 1010). She has extensive experience in financial and management accounting, financial due diligence and post-deal monitoring and company secretarial services.

Independent Non-executive Directors

Mr. Wang Xiao Ning ("Mr. Wang"), aged 63, 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.

Mr. Kong Chun Wing ("Mr. Kong"), aged 39, had been appointed as an independent non-executive Director on 2 July 2019. He is a fellow member of the CPA Australia. Mr. Kong is currently an assistant general manager in a Hong Kong company which engaging in the production of food and beverage. Mr. Kong has over 5 years working experience in the field of accounting professional and accumulated over 14 years working experience.

Ms. Chen Yuxin ("Ms. Chen"), aged 25, 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, aged 61, 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 54, 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 2022.

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 49 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 2022 is set out in note 7 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2022 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 35 to 147 of this annual report. The directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2022.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the Group's investment properties are set out in note 18 to the consolidated financial statements.

BORROWINGS

Details of the borrowings of the Group as at 31 December 2022 are set out in note 33 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 36 and 41 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 42 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company had no distributable reserves (2021: 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 (2021: HK$125.2 million) and approximately HK$1,782.8 million (2021: HK$1,650.3 million), respectively, at 31 December 2022 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 148 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$28,000 (2021: HK$181,000).

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$2,512,000 (2021: approximately HK$2,405,000) 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 (2021: Nil) was available at 31 December 2022 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 2022 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

Independent non-executive Directors:

Mr. Wang Xiao Ning
Mr. Cheng Ho On *(resigned on 12 August 2022)*
Mr. Kong Chun Wing
Mr. Lai Chi Yin, Samuel *(resigned on 23 June 2022)*
Ms. Chen Yuxin

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 99 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 99 of the Bye-Laws, Mr. Liu Mingqing and Mr. Wang Xiao Ning shall retire from office by rotation at the forthcoming AGM. Being eligible, Mr. Liu Mingqing and Mr. Wang Xiao Ning 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 102(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 11 to 12 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 2022 to 3 March 2024, 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 2022 to 26 March 2024, which may be terminated by either party thereto by giving to the other three months' prior notice in writing.

Ms. Lai Yee Man entered into a service contract with the Company to serve as an executive director of the Company for a term of two years from 14 December 2021 to 13 December 2023, 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 two years as follows:

Name of directors	Term period
Mr. Wang Xiao Ning	1 June 2021 to 31 May 2023
Mr. Kong Chun Wing	2 July 2021 to 1 July 2023
Ms. Chen Yuxin	13 May 2022 to 12 May 2024

DIRECTORS' INTERESTS IN CONTRACTS

Save for transactions as disclosed in note 45 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.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2022, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company 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

		Capacity			
Name of director	Number or attributable number of shares held or short positions	Interest of controlled corporation	Interest of child under 18 or spouse	Beneficial owner	Approximate percentage or attributable percentage of shareholdings
Zhang Qijun	6,700	–	–	6,700	0.001%
Liu Mingging	920,000	–	–	920,000	0.1%

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 2022.

Save as disclosed above, as at 31 December 2022, 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.

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 15 May 2019.

Eligible participants, including executive directors, non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group are invited to take up options to subscribe for the shares. The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the shares on the date of the offer; (ii) the average closing price of the shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the share on the date of offer.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not, in aggregate, exceed 10% of the total number of shares in issue as at the date of approval of the Share Option Scheme. For the avoidance of doubt, options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed or exercised) would not be counted for the purpose of calculating such 10% limit. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme under the limit as refreshed shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

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

		Number of share options				
Grantee	Date of grant	Outstanding at 1 January 2022	Cancelled during the year	Outstanding at 31 December 2022	Exercise price HK$	Exercise Period
N/A						

SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 31 December 2022, 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:

Long position in the shares of the Company

		Capacity		
Name of shareholder	Number of shares or underlying approximate shareholding	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 21 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 2022, 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 2022, 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 Articles of Associations 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 an 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 50 to the consolidated financial statements.

LITIGATIONS

Details of the litigations are set out in note 47 to the consolidated financial statements.

AUDITOR

KTC Partners CPA Limited was appointed as auditor of the Company at the AGM held on 23 June 2022. And a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming AGM. The have been no changes of auditor in the past three years.

On behalf of the Board

Zhang Qijun
Chairman

Hong Kong, 31 March 2023

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. Cheng Ho On, Mr. Kong Chun Wing, Mr. Lai Chi Yin Samuel, 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 23 June 2022.

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 2022.

BOARD OF DIRECTORS

As at 31 December 2022, 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 five independent non-executive directors, namely, Mr. Wang Xiao Ning, Mr. Kong Chun Wing, 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. Six Board meetings were held in 2022. 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 2022 is set out below:

Director	Board	Attendance/number of meetings Audit committee	Nomination committee	Remuneration committee	General meeting
Executive directors					
Mr. Zhang Qijun *(Chairman)*	6/6	N/A	N/A	N/A	N/A
Mr. Liu Mingqing	5/6	N/A	N/A	N/A	2/2
Ms. Lai Yee Man	4/6	N/A	N/A	N/A	N/A
Independent non-executive directors					
Mr. Wang Xiao Ning	5/6	2/2	N/A	N/A	N/A
Mr. Cheng Ho On (Resigned on 12 August 2022)	2/6	N/A	N/A	N/A	N/A
Mr. Kong Chun Wing	4/6	2/2	N/A	N/A	N/A
Mr. Lai Chi Yin, Samuel (Resigned on 23 June 2022)	1/6	N/A	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 11 to 12 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 2022. One out of three of the committee members is independent non-executive director of the Company. Its members as at 31 December 2022 include:

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

Directors' remunerations for the year are disclosed in note 13 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 2022. One out of two of the committee members are independent non-executive directors of the Company. Its members as at 31 December 2022 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 2022. All committee members are independent non-executive directors. Its members as at 31 December 2022 include:

Mr. Kong Chun Wing — *Chairman*
Mr. Wang Xiao Ning

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 HK$2,100,000 which was paid/payable to the Company's existing auditor, KTC Partners CPA Limited.

Corporate Governance Report

COMPANY SECRETARY

Mr. Tam Tsz Ming, aged 50, 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 34 of this annual report.

GOING CONCERN

The Group incurred a loss of approximately HK$38,501,000 for the year ended 31 December 2022 and as at 31 December 2022 the Group had net current liabilities of approximately HK$80,226,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In order to improve the Group's financial position, the directors of the Company have been implementing various measures as follows:

(1) Subsequent to 31 December 2022, certain promissory note holders and creditors with an aggregate amount of approximately HK$72,900,000 and HK$6,176,000 included in promissory notes and accruals and other payable respectively, have agreed not to demand for repayment of the amounts due before 19 March 2024; and

(2) The Group is actively considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible bonds.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation and outcome of the above measures to be undertaken by the Group and the financial support from a shareholder. The directors are of the opinion that, taking into account the above measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2022. The directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

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 **ROMA Risk 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 2022. 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.

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 2022 and considered that it was effective.

Corporate Governance Report

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

KTC Partners CPA Limited
Certified Public Accountants (Practising)
和信會計師事務所有限公司

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)

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 35 to 147, which comprise the consolidated statement of financial position as at 31 December 2022, 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 a summary of significant accounting policies.

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

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss of approximately HK$38,501,000 for the year ended 31 December 2022 and was in net current liability position of approximately HK$80,226,000 as at 31 December 2022. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Room 617, 6/F., Seapower Tower, Concordia Plaza, 1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong
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Tel 電話: (852) 2314 7999　Fax 傳真: (852) 2110 9498　E-mail 電子郵箱: info@ktccpa.com.hk

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. In addition to the matters described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Refer to notes 26 and 39(b) to the consolidated financial statements.

As at 31 December 2022, the Group had gross trade receivables of approximately HK$60,921,000 and accumulated provision for impairment of approximately HK$10,700,000.

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 2022 to the underlying financial records.

2. Impairment assessment of investments in associates

Refer to note 21 to the consolidated financial statements.

Included in investments in associates in the consolidated statement of financial position as at 31 December 2022 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$137,045,000, HK$119,091,000 and HK$53,141,000 respectively. No impairment loss was recognised in respect of these investments for the year ended 31 December 2022.

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 2022. We identified investments in associates as a key audit matter due to the balances of investments in these associates as at 31 December 2022 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 19 to the consolidated financial statements.

As at 31 December 2022, the Group's reported goodwill amounted to approximately HK$54,802,000.

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.

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.

4. Valuation of contingent consideration payables for business combination

Refer to Note 34 to the consolidated financial statements.

Contingent consideration payable arose from the profit guarantee arrangement included in the terms of the acquisition of Hubei Jincaotang Pharmaceutical Co., Ltd. ("Hubei Jincaotang") which was completed on the 27 May 2021. These payables are measured at fair value on addition and at the end of each reporting period. At 31 December 2022, contingent consideration payable at their estimated fair value amounted to approximately HK$29,058,000 and fair value gain of approximately HK$12,271,000 was recognised in the consolidated profit or loss for the year then ended.

The fair value measurements of these payables required exercise of significant judgments for the assumptions to be adopted and inputs to be used, including those concerning future post-acquisition performances of the acquired businesses and expected fair value of the convertible bonds to be issued to the vendor of Hubei Jincaotang.

Contingent consideration payables are remeasured at fair value at the end of each reporting period, and such remeasurements may be affected by changes in the estimation of post-acquisition performance of the acquired businesses. Any resulting gain or loss is recognised in the consolidated profit and loss account.

Valuation prepared by the Valuer was obtained in respect of the fair value of the contingent consideration payables in order to support management's estimates.

We focused on this area in our audit as the assessments made by management involved significant judgments and high level of estimation uncertainty, including those in relation to the future post-acquisition performances of the acquired business and the expected fair value of the convertible bonds to be issued, which may be affected by unexpected changes in future market or economic conditions or significant events or circumstances related to the acquired businesses.

Our audit procedures, among others, included:

- Checking the contingent consideration payables calculation prepared by management against the formula stated in the sales and purchase agreement for the acquired businesses;

- Evaluating performance forecasts used in the contingent consideration payables calculation and tested the mathematical accuracy of the underlying calculation and agreed them to the financial projection prepared by management and the Valuer for the specific financial period stipulated by the sales and purchase agreement. We also analysed the key assumptions adopted by management with reference to their business plan and historical actual results to assess the quality of management's financial projection;

- Reviewing the terms of the convertible bonds issued, the appropriateness of the valuation methodologies being adopted and the reasonableness of key inputs and assumptions used for the valuation of the convertible bonds to be issued;

- For the fair value measurement as at 31 December 2022, assessing the events and circumstances emerging since the last assessment. We held discussions with management, compared the latest performance forecasts to any revised future business plan and obtained evidence of those events or circumstances to support the fair value measurement.

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.

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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, 31 March 2023

Consolidated Statement of Profit or Loss

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Revenue	6	**420,904**	323,718
Cost of sales		**(263,884)**	(231,796)
Gross profit		**157,020**	91,922
Other income	8	**1,244**	6,304
Other gains/(loss), net	8	**4,856**	(293)
Selling and distribution costs		**(47,081)**	(34,365)
Administrative expenses		**(78,805)**	(78,496)
Finance costs	9	**(46,812)**	(44,146)
(Impairment loss)/reversal of impairment loss under expected credit loss model, net	10	**(355)**	1,104
Impairment of investment in associates		**–**	(139,098)
Gain on extinguishment of financial liabilities by issue of ordinary shares	36(c)	**–**	69,889
Prepayments, deposits and other receivables written-off		**–**	(3,726)
Share of results of associates		**(19,460)**	(88,558)
Loss before income tax		**(29,393)**	(219,463)
Income tax expense	11	**(9,108)**	(1,033)
Loss for the year	12	**(38,501)**	(220,496)
(Loss)/profit attributable to:			
— owners of the Company		**(59,521)**	(226,754)
— non-controlling interests		**21,020**	6,258
		(38,501)	(220,496)
Loss per share attributable to the owners of the Company		**HK cents**	HK cents (Restated)
Basic and diluted loss per share	15	**(11.74)**	(115.48)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
Loss for the year	**(38,501)**	(220,496)
Other comprehensive (loss)/income:		
Items that will not be reclassified subsequently to profit or loss:		
Surplus on revaluation of properties	**11,760**	6,001
Deferred tax effect on revaluation of properties	**(1,940)**	(850)
Items that may be reclassified to profit or loss:		
Exchange difference arising from translation of foreign operations	**(7,662)**	(2,909)
Share of exchange translation difference of associates	**(22,319)**	8,324
Other comprehensive (loss)/income for the year, net of tax	**(20,161)**	10,566
Total comprehensive loss for the year	**(58,662)**	(209,930)
Total comprehensive (loss)/income attributable to:		
— owners of the Company	**(80,869)**	(216,139)
— non-controlling interests	**22,207**	6,209
	(58,662)	(209,930)

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment	16	**93,934**	95,322
Right-of-use assets	17	**4,100**	5,042
Investment properties	18	**13,686**	12,471
Goodwill	19	**54,802**	56,902
Other intangible assets	20	**8,784**	29,922
Investments in associates	21	**310,336**	351,842
Prepayments, deposits and other receivables	27	**106**	3,904
Deferred income tax assets	23	**881**	635
		486,629	556,040
Current assets			
Inventories	24	**74,256**	35,355
Biological assets	25	**5,198**	–
Trade and bills receivables	26	**57,329**	35,228
Prepayments, deposits and other receivables	27	**157,469**	128,703
Bank balances and cash	28	**99,058**	201,113
		393,310	400,399
Current liabilities			
Trade payables	29	**15,037**	17,467
Accruals and other payables	30	**159,764**	203,420
Income tax payable		**1,548**	1,535
Promissory notes	31	**164,820**	250,621
Lease liabilities	32	**1,338**	2,067
Borrowings	33	**101,794**	109,808
Contingent consideration payables	34	**29,058**	73,733
Amount due to an associate		**177**	192
		473,536	658,843
Net current liabilities		**(80,226)**	(258,444)
Total assets less current liabilities		**406,403**	297,596

Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Non-current liabilities			
Lease liabilities	32	**2,602**	2,731
Borrowings	33	**7,949**	8,680
Deferred income tax liabilities	23	**19,631**	20,714
Contingent consideration payables	34	**–**	10,950
Convertible bonds	35	**91,213**	42,327
		121,395	85,402
Net assets		**285,008**	212,194
Equity			
Share capital	36	**9,206**	11,478
Reserves		**176,528**	123,649
Equity attributable to owners of the Company		**185,734**	135,127
Non-controlling interests		**99,274**	77,067
Total equity		**285,008**	212,194

The consolidated financial statements on pages 35 to 147 were approved and authorised for issue by the board of directors on 31 March 2023 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 2022

		Attributable to owners of the Company										
	Notes	Share capital HK$'000	Share premium Note (a) HK$'000	Statutory surplus Note (b) HK$'000	Contributed surplus Note (c) HK$'000	Foreign currency translation reserve Note (d) HK$'000	Property revaluation reserve Note (e) HK$'000	Fair value reserve for financial assets at FVTOCI HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
As 1 January 2021		6,074	1,591,305	2,961	303	52,913	65,392	55,383	(1,487,423)	286,908	7,083	293,991
(Loss)/profit for the year		–	–	–	–	–	–	–	(226,754)	(226,754)	6,258	(220,496)
Other comprehensive income for the year		–	–	–	–	5,464	5,151	–	–	10,615	(49)	10,566
Issue of shares for loan capitalisation	36(c)	3,904	30,454	–	–	–	–	–	–	34,358	–	34,358
Issue of shares under share placement	36(b)	1,500	28,500	–	–	–	–	–	–	30,000	–	30,000
Acquisition of a subsidiary	37	–	–	–	–	–	–	–	–	–	63,567	63,567
Capital injection from a non-controlling shareholder of a subsidiary		–	–	–	–	–	–	–	–	–	208	208
At 31 December 2021 and 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 income for the year		–	–	–	–	(31,168)	9,820	–	–	(21,348)	1,187	(20,161)
Transfer to statutory surplus		–	–	10,310	–	–	–	–	(10,310)	–	–	–
Capital reorganisation	36(d)	(9,183)	–	–	–	–	–	–	1,223	(7,960)	–	(7,960)
Issue of shares from rights issue	36(e)	6,911	132,525	–	–	–	–	–	–	139,436	–	139,436
At 31 December 2022		**9,206**	**1,782,784**	**13,271**	**303**	**27,209**	**80,363**	**55,383**	**(1,782,785)**	**185,734**	**99,274**	**285,008**

Notes:

(a) 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.

(b) 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.

(c) 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.

(d) 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 4.2 to the consolidated financial statements.

(e) 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 4.2 to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Cash flows from operating activities			
Loss before income tax		**(29,393)**	(219,463)
Adjustments for:			
Amortisation of other intangible assets	20	**21,912**	18,768
Depreciation of property, plant and equipment	16	**10,415**	8,750
Depreciation of right-of-use assets	17	**2,174**	1,626
Impairment loss/(reversal of impairment loss) on trade receivables and other receivables	10	**355**	(1,104)
Impairment of investment in associates		**–**	139,098
Gain on extinguishment of financial liabilities by issue of ordinary shares	36(c)	**–**	(69,889)
Fair value gain on investment properties		**(1,915)**	–
Fair value change on contingent consideration payables		**(12,271)**	2,354
Fair value change on convertible bonds — derivative component		**(168)**	(121)
Interest expenses		**46,812**	44,146
Interest income		**(145)**	(116)
Write-off and loss on disposals of property, plant and equipment		**443**	540
Write-down of inventories		**146**	–
Share of results of associates		**19,460**	88,558
Operating results before movements in working capital		**57,825**	13,147
Changes in inventories		**(35,582)**	(2,446)
Changes in biological assets		**(5,198)**	–
Changes in trade receivables		**(22,896)**	32,515
Changes in bills receivables		**1,157**	2,416
Changes in prepayments, deposits and other receivables		**(34,445)**	(24,020)
Changes in trade payables		**(1,642)**	(337)
Changes in accruals and other payables		**(84,337)**	110,551
Changes in amount due to an associate		**–**	192
Cash (used in)/generated from operations		**(125,118)**	132,018
Interest paid		**(6,527)**	(524)
Income taxes paid		**(15,055)**	(3,957)
Net cash (used in)/from operating activities		**(146,700)**	127,537

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 HK$'000	2021 HK$'000
Investing activities			
Interest received		**145**	116
Purchase of property, plant and equipment		**(326)**	(674)
Purchase of other intangible assets		**(2,445)**	–
Acquisition of a subsidiary	37	**–**	31,028
Net cash (used in)/from investing activities		**(2,626)**	30,470
Financing activities			
Bank and other loans raised		**13,969**	43,243
Repayment of bank and other loans		**(21,854)**	(32,480)
Proceeds from issue of shares placement	36(b)	**–**	30,000
Proceeds from issue of shares from rights issue	36(e)	**139,436**	–
Capital injection from a non-controlling shareholder of a subsidiary		**–**	208
Repayment of promissory notes		**(85,801)**	(17,221)
Repayment of principal portion of lease liabilities		**(2,334)**	(2,118)
Net cash from financing activities		**43,416**	21,632
Net (decrease) increase in cash and cash equivalents		**(105,910)**	179,639
Cash and cash equivalents at the beginning of the year		**201,113**	21,645
Effect of foreign exchange rate changes		**3,855**	(171)
Cash and cash equivalents at end of the year		**99,058**	201,113

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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 trading 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. BASIS OF PREPARATION

Going concern basis

For the year ended 31 December 2022, the Group incurred a loss of approximately HK38,501,000 and as at 31 December 2022, the Group had net current liabilities of approximately HK$80,226,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

In order to improve the Group's financial position, the Directors are implementing various plans and measures, as follows:

(1) subsequent to 31 December 2022, certain promissory note holders and creditors with an aggregate amount of approximately HK$72,900,000 and HK$6,176,000 included in promissory notes and accruals and other payable respectively, have agreed not to demand for repayment of the amounts due before 19 March 2024; and

(2) the Group is considering to raise new capital by carrying out fund raising activities including but not limited to rights issue, open offer, placing of new shares and issuance of convertible bonds.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation and outcome of the abovementioned plans and measures to be undertaken by the Group. The Directors are of the opinion that, taking into account the above plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from 31 December 2022. The Directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following 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 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

Except as described below, the application of the 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.

Impacts on application of Amendments to HKFRS 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after 1 January 2022. The amendments update a reference in HKFRS 3 Business Combinations so that it refers to the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "**Conceptual Framework**") instead of Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting 2010 issued in October 2010), add a requirement that, for transactions and events within the scope of HKAS 37 Provisions, Contingent Liabilities and Contingent Assets or HK(IFRIC)-Int 21 Levies, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

Impacts on application of Amendments to HKAS 16 Property, Plant and Equipment — Proceeds before Intended Use

The Group has applied the amendments for the first time in the current year. The amendments specify that the costs of any item that were produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the relevant property, plant and equipment is functioning properly) and the proceeds from selling such items should be recognised and measured in the profit or loss in accordance with applicable standards. The cost of the items are measured in accordance with HKAS 2 Inventories.

In accordance with the transitional provisions, the Group has applied the new accounting policy retrospectively to property, plant and equipment made available for use on or after the beginning of 1 January 2021. The application of the amendments in the current year has had no impact on the Group's financial positions and performance.

3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

Impacts on application of Amendments to HKAS 37 Onerous Contracts — Cost of Fulfilling a Contract

The Group has applied the amendments for the first time in the current year. The amendments specify that, when an entity assesses whether a contract is onerous in accordance with HKAS 37, the unavoidable costs under a contract should reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Costs of fulfilling the contract include incremental costs and an allocation of other costs that relate directly to fulfilling contracts (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The application of the amendments in the current year has had no impact on the Group's financial positions and performance.

Impacts on application of Amendments to HKFRSs Annual Improvements to HKFRSs 2018–2020

The Group has applied the amendments for the first time in the current year. The annual improvements make amendments to the following standards:

HKFRS 9 Financial Instruments

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the "10 per cent" test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged as at the date of initial application, 1 January 2022.

HKFRS 16 Leases

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

HKAS 41 Agriculture

The amendment ensures consistency with the requirements in HKFRS 13 Fair Value Measurement by removing the requirement in paragraph 22 of HKAS 41 to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The application of the amendments in the current year has had no impact on the Group's consolidated financial statements.

3. APPLICATION OF 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:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or 1 January 2024.

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 HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

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

Amendments to HKRS 16 Lease Liability in a Sale and Leaseback

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements of HKFRS 15 to be accounted for as a sale. The amendments require a seller-lessee to determine "lease payments" or "revised lease payments" such that the seller-lessee would not recognise a gain or loss that relates to the right of use retained by the seller-lessee. The amendments also clarify that applying the requirements does not prevent the seller-lessee from recognising in profit or loss any gain or loss relating to subsequent partial or full termination of a lease.

As part of the amendments, Illustrative Example 25 accompanying HKFRS 16 is added to illustrate the application of the requirements in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group.

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The 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:

- 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:

  (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and

  (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and

- 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.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 31 December 2022, the application of the amendments will not result in reclassification of the Group's liabilities.

3. APPLICATION OF 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 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 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 is not expected to have significant impact on the financial position or performance of the Group but may affect the disclosures of the Group's significant accounting policies. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

Amendments to HKAS 8 Definition of Accounting Estimates

The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty — that is, the accounting policy may require such items to be measured at monetary amounts that cannot be observed directly and must instead be estimated. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. Developing accounting estimates involves the use of judgements or assumptions based on the latest available, reliable information.

In addition, the concept of changes in accounting estimates in HKAS 8 is retained with additional clarifications.

The application of the amendments is not expected to have significant impact on the Group's consolidated financial statements.

3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

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

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 4.2 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities (please see Note below), the Group applies HKAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities are not recognised due to application of the initial recognition exemption.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual reporting period beginning on 1 January 2023. As at 31 December 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to approximately HK$4,100,000 and approximately HK$3,940,000 respectively.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

4.1 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.

The consolidated financial statements have been prepared on the historical cost basis, except for leasehold land and buildings, investment properties, financial assets at fair value through other comprehensive income ("**FVTOCI**"), biological assets, derivative component of convertible bonds and contingent consideration payables which are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

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

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

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies

Basis of consolidation

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

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

The Group reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Business combinations

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

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

For business combinations in which the acquisition date is on or after 1 January 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "**Conceptual Framework**") except for transactions and events within the scope of HKAS 37 or HK(IFRIC)-Int 21, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below);

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

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Business combinations *(continued)*

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

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

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

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).

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Goodwill *(continued)*

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash generating unit) disposed of and the portion of the cash-generating unit (or the group of cash generating units) retained.

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

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 existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

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.

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

Leasehold land and buildings	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

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

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

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 property is measured initially at its cost including any direct costs attributable to the property.

After initial recognition, the investment property is stated at its fair value based on valuation by an external independent valuer. Gains or losses arising from changes in fair value of the investment property are recognised 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.

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Intangible assets *(continued)*

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Leases *(continued)*

(b) The Group as a lessee (continued)

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

(v) Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

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

When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified 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.

(vi) Changes in the basis for determining the future lease payments as a result of interest rate benchmark reform

For changes in the basis for determining the future lease payments as a result of interest rate benchmark reform, the Group applies the practical expedient to remeasure the lease liabilities by discounting the revised lease payments using the unchanged discount rate and makes a corresponding adjustment to the related right-of-use assets. A lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

- the modification is necessary as a direct consequence of interest rate benchmark reform; and

- the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Leases *(continued)*

(b) The Group as a lessee (continued)

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

(vii) Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and

- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

(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) Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 Revenue from Contracts with Customers to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Leases *(continued)*

(c) The Group as a lessor (continued)

(iii) 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.

(d) Changes in the basis for determining the future lease payments as a result of interest rate benchmark reform

For changes in the basis for determining the future lease payments as a result of interest rate benchmark reform for a finance lease that is not accounted for as a separate lease, the Group applies the same accounting policies as those applicable to financial instruments (see accounting policy below).

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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 (other than financial assets or financial liabilities at fair value through profit or loss ("**FVTPL**")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Financial instruments *(continued)*

(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.

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

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

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a 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 that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve for financial assets at FVTOCI; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated losses.

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

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(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.

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

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

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

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

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.

(c) Termination benefits

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

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

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

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 loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Taxation *(continued)*

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.

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Taxation *(continued)*

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.

Related parties

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

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

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

    (ii) has significant influence over the Group; or

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

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

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

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

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

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

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

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Related parties *(continued)*

(b) *(continued)*

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

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

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

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.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

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

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.

Provisions

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

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

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.2 Significant accounting policies *(continued)*

Contingent liabilities

A contingent liability is a present obligation arising from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Where the Group is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability and it is not recognised in the consolidated financial statements.

The Group assesses continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the consolidated financial statements in the reporting period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made.

5. 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) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation and outcome of the measures to be undertaken by the Group. Details are explained in note 2 to the consolidated financial statements.

(b) 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.

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

Critical judgements in applying accounting policies *(continued)*

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

Note 21(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.

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 18) and leasehold land and buildings (note 16) performed by an external professional valuer by using the market approach. Had the Group used different valuation techniques, the fair value of the investment properties, leasehold land and buildings would be different and thus may have an impact on the consolidated financial statements.

At 31 December 2022, the fair values of investment properties and leasehold land and buildings would change by approximately HK$1,369,000 (2021: HK$1,247,000) and approximately HK$6,320,000 (2021: HK$5,760,000) 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 2022 was approximately HK$74,256,000 (2021: HK$35,355,000). During the year ended 31 December 2022, the Group recognised write-down of finished goods of approximately HK$146,000 (2021: Nil) to net realisable value.

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

Key sources of estimation uncertainty *(continued)*

(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 2022, the carrying amount of the trade receivables and accumulated impairment loss under expected credit loss model amounted to approximately HK$50,221,000 and HK$10,700,000 respectively (2021: HK$26,963,000 and HK$11,205,000 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 26 and 39(b).

(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 2022, 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 2022, the carrying amount of the investments in associates amounted to approximately HK$310,336,000 (2021: HK$351,842,000), after taking into account impairment of approximately Nil (2021: HK$139,098,000) recognised in profit or loss during the year.

5. 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 2022, the carrying amount of goodwill was HK$54,802,000 (2021: HK$56,902,000) (net of accumulated impairment loss of Nil (2021: Nil)). Details of the recoverable amount calculation are disclosed in note 19.

(g) Contingent consideration payables

Where the fair value of contingent consideration payables cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted probability-adjusted profit or loss projection. The inputs to these models are taken from observable markets, where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgments include considerations of inputs such as probability-adjusted profit/loss and expected fair value of convertible bonds to be issued. Changes in assumptions about these factors could affect the reported fair value of contingent consideration payables. Details of the calculation are disclosed in note 34.

6. REVENUE

(a) Disaggregation of revenue from contracts with customers

	2022 HK$'000	2021 HK$'000
Sales of toys and gifts items	**293,042**	264,282
Sales of ceramic items	**–**	31
Sales of Chinese herbs products	**127,862**	59,405
	420,904	323,718
By revenue source		
Manufacturing of goods items		
— Toys and gifts items	**141,882**	112,064
— Chinese herbs products	**127,862**	59,405
Trading of goods items		
— Toys and gift items	**151,160**	152,218
— Ceramic	**–**	31
	420,904	323,718
Timing of revenue recognition		
At point in time	**420,904**	323,718

(b) Performance obligations for contracts with customers

Revenue from (1) sales of toys and gifts items, (2) sales of ceramic items and (3) 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, 15 days and 120 days for sales of toys and gifts items, sales of ceramic 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, ceramic 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, ceramic items and Chinese herbs products that had an original expected duration of one year or less.

7. OPERATING SEGMENT INFORMATION

For the year ended 31 December 2022 and 2021, 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 through associates of the Group
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

Upon completion of acquisition of Hubei Jincaotang Pharmaceutical Co., Ltd. ("**Hubei Jincaotang**") on 27 May 2021, Chinese herbs — Development, processing and manufacturing of Chinese herbs business become the new reportable and operating segment of the Group for the year ended 31 December 2021.

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, 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.

7. OPERATING SEGMENT INFORMATION *(continued)*

(a) The segment results for the year ended 31 December 2022 and 2021:

	Exploration		Toys and gifts items		Fruit plantation		Leisure		Culture		Chinese herbs		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	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	**–**	–	**293,042**	264,282	**–**	–	**–**	–	**–**	31	**127,862**	59,405	**420,904**	323,718
Segment (loss)/profit	**(50)**	(36)	**21,165**	(8,064)	**(16,378)**	(217,286)	**(18,242)**	(4,685)	**–**	(1,262)	**36,833**	5,408	**23,328**	(225,925)
Unallocated amount:														
Corporate finance costs													**(40,138)**	(40,856)
Gain on extinguishment of financial liabilities by issue of ordinary shares													**–**	69,889
Other corporate income and expenses													**(33,962)**	(21,250)
Fair value change on contingent consideration payables													**12,271**	(2,354)
Loss for the year													**(38,501)**	(220,496)

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	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	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	**13**	91	**220,795**	276,769	**200,803**	229,092	**206,140**	226,080	**3,522**	3,823	**233,144**	206,927	**864,417**	942,782
Unallocated corporate assets														
Bank and cash balances													**66**	2,011
Prepayments, deposits and other receivables													**15,456**	11,646
Total assets													**879,939**	956,439

(c) Segment liabilities:

	Exploration		Toys and gifts items		Fruit plantation		Leisure		Culture		Chinese herbs		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	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	**(94)**	(126)	**(165,717)**	(237,530)	**(4,135)**	(4,135)	**(15,087)**	(9,748)	**(4,332)**	(4,702)	**(9,338)**	(10,088)	**(198,703)**	(266,329)
Unallocated corporate liabilities														
Borrowings													**(2,914)**	(16,995)
Accruals and other payables													**(108,223)**	(83,290)
Promissory notes													**(164,820)**	(250,621)
Contingent consideration payables													**(29,058)**	(84,683)
Convertible bonds													**(91,213)**	(42,327)
Total liabilities													**(594,931)**	(744,245)

7. OPERATING SEGMENT INFORMATION *(continued)*

(d) Other information:

	Exploration		Toys and gifts items		Fruit plantation		Leisure		Culture		Chinese herbs		Unallocate		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
	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	**-**	–	**(9,424)**	(8,720)	**-**	–	**-**	–	**-**	–	**(25,077)**	(20,424)	**-**	–	**(34,501)**	(29,144)
Impairment of investment in an associate	**-**	–	**-**	–	**-**	(139,098)	**-**	–	**-**	–	**-**	–	**-**	–	**-**	(139,098)
Impairment loss/(reversal of impairment loss) under expected credit loss model, net	**-**	–	**(260)**	1,104	**-**	–	**-**	–	**-**	–	**(95)**	–	**-**	–	**(355)**	1,104
Write-down of inventories	**-**	–	**(146)**	–	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**(146)**	–
Share of results of associates	**-**	–	**-**	–	**(16,378)**	(78,187)	**(3,082)**	(10,371)	**-**	–	**-**	–	**-**	–	**(19,460)**	(88,558)
Interest income	**-**	–	**11**	2	**-**	–	**-**	–	**-**	–	**134**	114	**-**	–	**145**	116
Interest expenses	**-**	(2)	**(6,608)**	(1,362)	**-**	–	**-**	–	**-**	–	**(66)**	(1,926)	**(40,138)**	(40,856)	**(46,812)**	(44,146)
Additions to segment non-current assets (note)	**-**	–	**291**	2,950	**-**	–	**-**	–	**-**	–	**1,156**	–	**-**	–	**1,447**	2,950
Investment in associates included in segment assets	**-**	–	**-**	–	**190,185**	218,474	**120,151**	133,368	**-**	–	**-**	–	**-**	–	**310,336**	351,842

Note:

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

(e) Geographical information:

	Revenue		Non-current assets	
	2022	2021	**2022**	2021
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC (including Hong Kong)	**128,796**	60,356	**420,683**	490,124
The USA	**291,620**	262,663	**1,710**	1,926
Canada	**33**	612	**–**	–
European Union[1]	**236**	87	**–**	–
Samoa	**–**	–	**63,355**	63,355
Others[2]	**219**	–	**–**	–
	420,904	323,718	**485,748**	555,405

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.

7. 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 contributing more than 10% of the Group's total revenue for the year, represented approximately 48% of the total Group's revenue for the year ended 31 December 2022 (2021: 68%), which are shown as follows:

	2022 **HK$'000**	2021 HK$'000
Customer A[1]	**119,572**	98,992
Customer B[1]	**–**	40,392
Customer C[1]	**–**	41,342
Customer D[1]	**N/A[3]**	40,438
Customer E[2]	**81,498**	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.

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

	2022 HK$'000	2021 HK$'000
Other income		
Bank interest income	**145**	116
Rental income from investment properties	**84**	87
Government grants (Note)	**804**	980
Commission income	**–**	4,500
Gain on disposal of property, plant and equipment	**–**	100
Others	**211**	521
	1,244	6,304
Other gains/(loss), net		
Fair value gain on investment properties	**1,915**	–
Fair value gain/(loss) on contingent consideration payables	**12,271**	(2,354)
Fair value gain on convertible bonds — derivative component	**168**	121
Net foreign exchange (loss)/gain	**(9,498)**	1,940
	4,856	(293)

Note:

During the current year, the Group recognised government grants of approximately HK$629,000 (2021: 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.

9. FINANCE COSTS

	2022 HK$'000	2021 HK$'000
Interest expenses on:		
Bank borrowings and overdrafts	**786**	521
Effective interest expense on convertible bonds	**5,700**	1,926
Other loans	**21,093**	21,168
Trust receipt loans	**12**	3
Interest on lease liabilities	**174**	182
Promissory notes	**19,047**	20,346
	46,812	44,146

10. IMPAIRMENT LOSS/(REVERSAL OF IMPAIRMENT LOSS) UNDER EXPECTED CREDIT LOSS MODEL, NET

	2022 HK$'000	2021 HK$'000
Impairment losses recognised/(reversed) on:		
— Trade receivables	**164**	(1,104)
— Other receivables	**191**	–
	355	(1,104)

11. INCOME TAX EXPENSE

	2022 HK$'000	2021 HK$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	**451**	65
Current tax — Overseas		
Provision for the year	**11,814**	4,908
Total current tax	**12,265**	4,973
Deferred income tax credit	**(3,157)**	(3,940)
Income tax expense	**9,108**	1,033

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.

11. INCOME TAX EXPENSE *(continued)*

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

	2022 HK$'000	2021 HK$'000
Loss before income tax	**(29,393)**	(219,463)
Tax at the applicable tax of 16.5% (2021: 16.5%)	**(4,850)**	(36,212)
Tax effect of income that is not taxable	**(3,647)**	(16,664)
Tax effect of expenses that are not deductible	**16,366**	38,817
Tax effect of utilisation of tax losses not previously recognised	**(1,619)**	(14)
Tax effect of temporary differences not recognised	**163**	46
Tax effect of share of result of associates	**3,211**	14,612
Tax effect of unused tax losses not recognised	**13**	1,327
Over-provision for prior years	**–**	(2)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(529)**	(877)
Income tax expense	**9,108**	1,033

Tax charge relating to each component of other comprehensive income is as follows:

	2022			2021		
	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	**(7,662)**	**–**	**(7,662)**	(2,909)	–	(2,909)
Surplus on revaluation of properties	**11,760**	**(1,940)**	**9,820**	6,001	(850)	5,151
Share of exchange translation difference of associates	**(22,319)**	**–**	**(22,319)**	8,324	–	8,324
Fair value loss of financial assets at fair value through other comprehensive income	**–**	**–**	**–**	–	–	–
Other comprehensive income	**(18,221)**	**(1,940)**	**(20,161)**	11,416	(850)	10,566
Current tax		**–**			–	
Deferred income tax (note 23)		**(1,940)**			(850)	
		(1,940)			(850)	

12. LOSS FOR THE YEAR

Loss for the year has been arrived after charging:

	2022 HK$'000	2021 HK$'000
Amortisation of other intangible assets, included in		
— Cost of sales	**21,827**	18,756
— Selling and distribution costs	**12**	12
— Administrative expenses	**73**	–
Auditor's remuneration	**2,547**	3,087
Cost of inventories recognised as expense (note)	**239,946**	210,743
Depreciation of property, plant and equipment, included in		
— Cost of sales	**2,111**	2,297
— Administrative expenses	**8,304**	6,453
Depreciation of right-of-use assets, included in administrative expenses	**2,174**	1,626
Expense relating to short-term lease and other leases with lease terms within 12 months	**4,611**	3,684
Loss on write-off of property, plant and equipment, included in administrative expenses	**443**	540
Legal and professional fees	**3,806**	6,452
Staff costs (including directors' remuneration)		
— Salaries, bonus and allowance, included in		
— Cost of sales	**12,188**	12,496
— Selling and distribution costs	**14,880**	6,888
— Administrative expenses	**29,051**	32,996
— Retirement benefits scheme contributions, included in		
— Administrative expenses	**2,512**	2,405

Note: The cost of inventories recognised as an expense in cost of sales included approximately HK$146,000 (2021: Nil) in respect of write-down of finished goods to net realisable value.

13. 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 2022				
Executive directors:				
Mr. Zhang Qijun *(Chairman)*	–	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 *(resigned on 12 August 2022)*	74	–	–	74
Mr. Kong Chun Wing	120	–	–	120
Mr. Lai Chi Yin Samuel *(retired on 23 June 2022)*	58	–	–	58
Ms. Chen Yuxin	–	–	–	–
	396	1,043	–	1,439

13. 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 2021				
Executive directors:				
Mr. Zhang Qijun *(Chairman)*	–	202	–	202
Ms. Lai Yee Man *(appointed on 14 December 2021)*	–	12	–	12
Mr. Chen Jian *(resigned on 14 December 2021)*	–	191	–	191
Mr. Liu Mingqing	–	600	–	600
Independent non-executive directors:				
Mr. Wang Xiao Ning	144	–	–	144
Mr. Cheng Ho On	120	–	–	120
Mr. Kong Chun Wing	120	–	–	120
Mr. Lai Chi Yin Samuel	120	–	–	120
Ms. Chen Yuxin	–	–	–	–
Mr. Hou Yunde *(resigned on 19 March 2021)*	–	–	–	–
	504	1,005	–	1,509

During the years ended 31 December 2022 and 2021, 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.

13. DIRECTORS' EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The five highest paid individuals in the Group during the year included Nil (2021: Nil) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining five (2021: five) individuals are set out below:

	2022 HK$'000	2021 HK$'000
Salaries, wages and allowances	**8,538**	7,868
Bonus*	**9,570**	6,910
Retirement benefits scheme contributions	**826**	652
	18,934	15,430

The emoluments fell within the following band:

	Number of individuals 2022	 2021
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**	4
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	**1**	–
HK$5,000,001 to HK$5,500,000	**1**	–
HK$5,500,001 to HK$6,000,000	**1**	–
	5	5

During the year, no emoluments (2021: 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 both year.*

14. DIVIDEND

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

15. LOSS PER SHARE

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

	2022 HK$'000	2021 HK$'000
Loss		
Loss for the purpose of basic and diluted loss per share	**(59,521)**	(226,754)
	'000	'000 (restated)
Number of shares		
Weighted average number of ordinary shares in issue	**506,818**	196,355
Loss per share		
Basic loss per share (HK cents)	**(11.74)**	(115.48)

Note: The weighted average number of ordinary shares for the years ended 31 December 2022 and 2021 has been adjusted for the five-to-one share consolidation of the Company which between effective on 22 July 2022 and the weighted average number of ordinary shares for the year ended 31 December 2021 has been adjusted and restated for the rights issue completed during the year ended 31 December 2022.

Diluted loss per share

For the years ended 31 December 2022 and 2021, 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.

16. 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$'000	Total HK$'000
COST/VALUATION								
At 1 January 2021	57,600	–	4,625	7,923	19,951	11,203	1,626	102,928
Additions	–	–	156	–	272	246	–	674
Acquired on acquisition of a subsidiary (note 37)	–	22,501	–	–	–	10,510	–	33,011
Disposal/written off	–	–	–	(433)	–	(1,521)	(441)	(2,395)
Exchange difference	–	85	45	80	188	87	50	535
At 31 December 2021 and 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**
Disposal/written off	**–**	**–**	**–**	**(917)**	**(5,298)**	**(333)**	**–**	**(6,548)**
Exchange difference	**–**	**(1,780)**	**(121)**	**(196)**	**(400)**	**(879)**	**(147)**	**(3,523)**
At 31 December 2022	**63,200**	**20,806**	**4,705**	**6,555**	**14,762**	**19,492**	**1,088**	**130,608**
ACCUMULATED DEPRECIATION								
At 1 January 2021	–	–	2,753	7,243	18,567	8,663	981	38,207
Charge for the year	6,001	557	169	63	454	1,253	253	8,750
Adjustment on revaluation	(6,001)	–	–	–	–	–	–	(6,001)
Disposal/written off	–	–	–	(390)	–	(1,024)	(441)	(1,855)
Exchange difference	–	9	14	63	153	51	40	330
At 31 December 2021 and 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)**
Disposal/written off	**–**	**–**	**–**	**(834)**	**(4,962)**	**(309)**	**–**	**(6,105)**
Exchange difference	**–**	**(87)**	**(43)**	**(151)**	**(321)**	**(179)**	**(126)**	**(907)**
At 31 December 2022	**–**	**1,806**	**3,081**	**6,064**	**14,171**	**10,625**	**927**	**36,674**
CARRYING AMOUNTS								
At 31 December 2022	**63,200**	**19,000**	**1,624**	**491**	**591**	**8,867**	**161**	**93,934**
At 31 December 2021	57,600	22,020	1,890	591	1,237	11,582	402	95,322

16. 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$'000	Total HK$'000
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**
31 December 2021								
At cost	–	22,586	4,826	7,570	20,411	20,525	1,235	77,153
At valuation	57,600	–	–	–	–	–	–	57,600
	57,600	22,586	4,826	7,570	20,411	20,525	1,235	134,753

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

	2022 HK$'000	2021 HK$'000
Held under medium term leases in Hong Kong	**63,200**	57,600

The Group owns several industrial buildings where its manufacturing facilities 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 only if the payments made can be allocated reliably.

At 31 December 2022, the Group's leasehold land and buildings with an aggregate carrying amount of approximately of HK$61,600,000 (2021: HK$56,000,000) were pledged to secure other loan granted to the Group.

The Group's leasehold land and buildings were revalued at 31 December 2022 and 2021 using the open market value basis by reference to market evidence of recent transactions for similar properties by LCH (Asia-Pacific) Surveyors Limited ("LCH") (2021: LCH), an independent firm of qualified professional valuer.

The carrying amount of the Group's leasehold land and buildings would have been approximately HK$1,637,000 (2021: HK$1,703,000) had they been stated at cost less accumulated depreciation and impairment losses.

17. RIGHT-OF-USE ASSETS

	Leased farming land HK$'000	Leased properties HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost				
As at 1 January 2021	–	5,800	1,207	7,007
Additions	–	–	2,304	2,304
Effect of foreign currency exchange difference	–	35	–	35
As at 31 December 2021 and 1 January 2022	–	5,835	3,511	9,346
Additions	1,156	–	–	1,156
Adjustment relating to change in the index	–	104	–	104
Effect of foreign currency exchange difference	(36)	8	–	(28)
As at 31 December 2022	1,120	5,947	3,511	10,578
Accumulated depreciation				
As at 1 January 2021	–	2,558	101	2,659
Charge for the year	–	1,346	280	1,626
Effect of foreign currency exchange	–	19	–	19
As at 31 December 2021 and 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	42	5,353	1,083	6,478
Carrying amount				
At 31 December 2022	1,078	594	2,428	4,100
At 31 December 2021	–	1,912	3,130	5,042

Note:

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

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

	2022 HK$'000	2021 HK$'000
Expense relating to short-term leases	**4,611**	3,684
Total cash outflow in respect of lease liabilities	**2,334**	2,118

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.

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

18. INVESTMENT PROPERTIES

	2022 HK$'000	2021 HK$'000
Fair value		
At 1 January	**12,471**	12,243
Fair value gain	**1,915**	–
Exchange differences	**(700)**	228
At 31 December	**13,686**	12,471

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 2022 and 2021 on the open market value basis by reference to market evidence of recent transactions for similar properties by LCH (2021: LCH), an independent firm of qualified professional valuer.

At 31 December 2022, the Group's investment properties with an aggregate carrying amount of approximately HK$8,686,370 (2021: HK$8,571,500) were pledged to secure banking facilities granted to the Group.

19. GOODWILL

	HK$'000
Cost	
At 1 January 2021	–
Acquisition of a subsidiary (Note 37)	56,688
Exchange difference	214
At 31 December 2021 and 1 January 2022	56,902
Exchange difference	(2,100)
At 31 December 2022	54,802
Carrying amount	
At 31 December 2022	54,802
At 31 December 2021	56,902

Impairment test

Goodwill set out above has been allocated to one individual cash generating unit ("**CGU**"), comprising the subsidiary — Hubei Jincaotang in the Chinese herbs — Trading of Chinese herbs business segment.

The goodwill arose from the acquisition of Hubei Jincaotang, which is engaged in the development, processing and trading of Chinese herbs, on 27 May 2021 (Note 37).

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 (2021: 3 years).

Key assumptions used in the calculation of value-in-use were discount rate, growth rate, budgeted revenue and gross margins. The pre-tax discount rate applied to the cash flow projections is 27% (2021: 25%). The CGU's cash flows beyond the 3-year period are extrapolated using a steady 2% growth rate (2021: 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 and gross margin, 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 independent professional valuers, 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.

20. OTHER INTANGIBLE ASSETS

	Trademark HK$'000	Customer contracts HK$'000 (Note)	Forestry right HK$'000	Total HK$'000
Cost				
At 1 January 2021	1,155	–	–	1,155
Acquired on acquisition of a subsidiary (Note 37)	–	47,818	–	47,818
Exchange difference	–	180	–	180
At 31 December 2021 and 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	1,155	44,219	2,369	47,743
Accumulated amortisation				
At 1 January 2021	166	–	–	166
Charge for the year	12	18,756	–	18,768
Exchange difference	–	297	–	297
At 31 December 2021 and 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	190	38,699	70	38,959
Carrying amount				
At 31 December 2022	965	5,520	2,299	8,784
At 31 December 2021	977	28,945	–	29,922

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.

21. INVESTMENTS IN ASSOCIATES

	2022 HK$'000	2021 HK$'000
Unlisted investments:		
Share of net assets	**276,104**	317,883
Goodwill	**698,718**	698,445
	974,822	1,016,328
Impairment losses	**(664,486)**	(664,486)
	310,336	351,842

21. 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

	2022	2021
% of ownership interests	**40%**	40%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**465,324**	525,162
Current assets	**12,914**	14,237
Non-current liabilities	**(128,582)**	(144,556)
Current liabilities	**(7,044)**	(7,044)
Net assets	**342,612**	387,799
Group's share of net assets	**137,045**	155,119
Goodwill	**453,886**	453,886
	590,931	609,005
Impairment losses	**(453,886)**	(453,886)
Carrying amount of Group's interests	**137,045**	155,119
Year ended 31 December:		
Revenue	**–**	9,016
Loss before tax	**(19,298)**	(21,727)
Loss after tax	**(14,556)**	(18,871)
Other comprehensive income	**(30,630)**	10,723
Total comprehensive loss	**(45,186)**	(8,148)
Dividends received from associates	**–**	–

21. INVESTMENTS IN ASSOCIATES *(continued)*

(a) Multijoy Group *(continued)*

Impairment assessment

In view of the impact of COVID-19 pandemic and significant loss incurred by Multijoy Group during the year ended 31 December 2022, 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**") (2021: Weisi Limited) 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 2022 and 2021. 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 2022 (2021: Nil).

21. 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

	2022	2021
% of ownership interests	**33%**	33%

	HK$'000	HK$'000
At 31 December:		
Non-current assets	**5,847**	5,730
Current assets	**2,304**	2,377
Current liabilities	**(394)**	(428)
Net assets	**7,757**	7,679
Group's share of net assets	**2,559**	2,534
Goodwill	**31,360**	31,360
	33,919	33,894
Impairment losses	**(32,860)**	(32,860)
Carrying amount of Group's interests	**1,059**	1,034
Year ended 31 December:		
Revenue	**310**	290
Loss before tax	**(506)**	(534)
Loss after tax	**(506)**	(534)
Other comprehensive income	**584**	166
Total comprehensive income/(loss)	**78**	(368)
Dividends received from associate	**–**	–

No impairment loss was recognised for the years ended 31 December 2022 and 2021.

21. 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

	2022	2021
% of ownership interests	**20%**	20%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**63,723**	76,846
Current assets	**544,456**	601,270
Non-current liabilities	**(11,281)**	(14,694)
Current liabilities	**(1,442)**	(1,752)
Net assets	**595,456**	661,670
Group's share of net assets	**119,091**	132,334
Year ended 31 December:		
Revenue	**7,917**	14,450
Loss before tax	**(14,578)**	(50,073)
Loss after tax	**(14,578)**	(50,973)
Other comprehensive income	**(51,636)**	18,187
Total comprehensive loss	**(66,214)**	(32,786)
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.

21. INVESTMENTS IN ASSOCIATES *(continued)*

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

Impairment assessment

In view of the impact of COVID-19 pandemic and significant loss incurred by Anhui Fu Lao during the years ended 31 December 2022 and 2021, the Directors have performed impairment assessment on investment in Anhui Fu Lao. The recoverable amount of Anhui Fu Lao has been determined by LCH (2021: LCH) based on FVLCOD.

The FVLCOD 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. 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 FVLCOD 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 2022 and 2021. 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 2022 (2021: Nil).

21. 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

	2022	2021
% of ownership interests	**47%**	47%
	HK$'000	HK$'000
At 31 December:		
Non-current assets	**25,610**	21,678
Current assets	**28,951**	53,928
Non-current liabilities	**(7,453)**	(8,137)
Current liabilities	**(10,068)**	(8,116)
Net assets	**37,040**	59,353
Group's share of net assets	**17,409**	27,896
Goodwill	**213,472**	213,199
	230,881	241,095
Impairment losses	**(177,740)**	(177,740)
Carrying amount of Group's interests	**53,141**	63,355
Year ended 31 December:		
Revenue	**33,259**	63,711
Loss before tax	**(22,457)**	(150,296)
Loss after tax	**(22,457)**	(150,296)
Other comprehensive income	**143**	729
Total comprehensive loss	**(22,314)**	(149,567)
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.

21. INVESTMENTS IN ASSOCIATES *(continued)*

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

Impairment assessment

In view of the prolonged impact of COVID-19 pandemic 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 (2021: 5-year), and discount rate of 17% (2021: 16%). USO's cash flows beyond the 5-year period (2021: 5-year) are extrapolated using a steady 2.1% (2021: 1.3%) 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 13% to 70% (2021: 28% 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, the recoverable amount of USO is approximately HK$64,081,000 (2021: HK$63,354,000), and no impairment loss was recognised for the year ended 31 December 2022 (2021: HK$139,098,000 impairment loss recognised).

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 **HK$'000**	2021 HK$'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 designated 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 2022 and 2021, 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.

23. DEFERRED INCOME TAX

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

	2022 HK$'000	2021 HK$'000
Deferred income tax assets	**881**	635
Deferred income tax liabilities	**(19,631)**	(20,714)
	(18,750)	(20,079)

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 2021	180	(147)	(12,094)	–	–	(3,130)	(15,191)
Charge to equity for the year	–	–	(850)	–	–	–	(850)
Acquisition of a subsidiary (Note 37)	–	–	–	(747)	(7,173)	–	(7,920)
(Charge)/credit to profit or loss for the year	453	(166)	840	–	2,813	–	3,940
Exchange differences	2	(49)	(26)	(3)	18	–	(58)
At 31 December 2021 and 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	**881**	**(650)**	**(14,342)**	**(691)**	**(818)**	**(3,130)**	**(18,750)**

At the end of the reporting period the Group has unused tax losses of approximately HK$9,552,000 (2021: HK$25,886,000) 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$119,360,000 (2021: HK$100,377,000). 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.

24. INVENTORIES

	2022 HK$'000	2021 HK$'000
Raw materials	**9,594**	8,094
Work in progress	**117**	1,515
Finished goods	**64,545**	25,746
	74,256	35,355

25. BIOLOGICAL ASSETS

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

	2022 HK$'000	2021 HK$'000
At 1 January	**–**	–
Increase due to purchase and cultivation	**5,198**	–
At 31 December	**5,198**	–

Based on the valuation report prepared by a professional Valuer, no change in fair value was noted as at 31 December 2022.

26. TRADE AND BILLS RECEIVABLES

	2022 HK$'000	2021 HK$'000
Trade receivables — contracts with customers	**60,921**	38,168
Less: Allowance for credit losses	**(10,700)**	(11,205)
Trade receivables, net	**50,221**	26,963
Bills receivables	**7,108**	8,265
	57,329	35,228

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

	2022 HK$'000	2021 HK$'000
Within 30 days	**31,688**	17,064
31 days to 90 days	**15,013**	8,582
91 days to 180 days	**3,158**	1,142
181 days to 360 days	**362**	164
Over 360 days	**–**	11
	50,221	26,963

26. TRADE AND BILLS RECEIVABLES *(continued)*

As of 31 December 2022, trade receivables of approximately HK$9,653,000 (2021: HK$9,881,000) 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 invoice date, is as follows:

	2022 HK$'000	2021 HK$'000
Within 90 days	**6,856**	9,591
91 days to 180 days	**2,532**	193
181 days to 360 days	**265**	97
	9,653	9,881

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	**2022 HK$'000**	2021 HK$'000
Non-current portion:			
Trade deposits		**–**	3,904
Deposit and other receivables		**106**	–
		106	3,904
Current portion:			
Trade deposits	(a)	**108,339**	80,561
Deposit and other receivables		**47,626**	43,537
Prepayment		**1,504**	4,605
		157,469	128,703
Total prepayments, deposits and other receivables		**157,575**	132,607

(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. Due to the COVID-19 outbreak, the purchase contracts were extended to 2 June 2023.

28. BANK BALANCES AND CASH

As at 31 December 2022, the bank and cash balances of the Group denominated in Renminbi ("**RMB**") amounted to approximately HK$47,443,000 (2021: HK$68,240,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

For the year ended 31 December 2022, 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 (2021: Nil).

29. 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:

	2022 HK$'000	2021 HK$'000
Within 30 days	**10,753**	11,720
31 days to 90 days	**2,912**	2,160
91 days to 180 days	**729**	1,657
181 days to 360 days	**12**	803
Over 360 days	**631**	1,127
	15,037	17,467

30. ACCRUALS AND OTHER PAYABLES

	Note	**2022 HK$'000**	2021 HK$'000
Other payables	(a), (b)	**68,020**	132,377
Obligation under share re-purchase arrangement	36(a)	**8,000**	8,000
Other accruals		**31,906**	15,790
Accrued salaries		**18,625**	16,014
Accrued professional fees		**9,014**	9,781
VAT payables		**2,560**	282
Interest payables		**20,044**	19,827
Receipts in advance		**310**	255
Due to related parties	(45(b)(ii))	**1,285**	1,094
		159,764	203,420

Note:

(a) As at 31 December 2021, other payables mainly included short term advance from a customer of approximately HK$77,781,000 (2022: Nil), which is non-interest bearing and repayable on demand. The advance was subsequently fully repaid.

(b) As at 31 December 2022 and 2021, included in other payables is an amount due to Mr. Guo of approximately HK$9,600,000 in relation outstanding borrowings. Details per note 47(a) to the consolidated financial statement.

31. PROMISSORY NOTES

	Notes	Total HK$'000
At 1 January 2021		256,320
Issuance of promissory notes	(a)	52,336
Repayment of promissory notes		(58,035)
At 31 December 2021 and 1 January 2022		250,621
Repayment of promissory notes	(b), (c)	**(85,801)**
At 31 December 2022		**164,820**

	2022 HK$'000	2021 HK$'000
An analysis is shown as follows:		
Not yet due	**–**	–
Overdue for repayment	**164,820**	250,621
	164,820	250,621

	2022 HK$'000	2021 HK$'000
Analysed as:		
Current liabilities	**164,820**	250,621

Notes:

(a) During the year ended 31 December 2021, the Group issued promissory notes with aggregate principal amount of approximately HK$52,336,000 to set off against other payables in aggregate of approximately HK$47,336,000 and borrowings in aggregate of approximately HK$5,000,000. The promissory notes are unsecured, interest bearing at 28% per annum, overdue interest bearing at 30% per annum and with maturity date of one month from the date of issues.

(b) At 31 December 2022, included in promissory notes with the principal amount of HK$92,000,000 relates to the partial consideration for the acquisition of 20% of the equity interests in Eagle Praise Group in 2015. The amount is a contingent gain and further details of the matter is disclosed in note 48 to the consolidated financial statements.

(c) 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. Details are set out in note 27(a) to the consolidated financial statements.

32. LEASE LIABILITIES

	2022 HK$'000	2021 HK$'000
Lease liabilities payable:		
Within one year	**1,338**	2,067
Within a period of more than one year but not more than two years	**727**	1,289
Within a period of more than two years but not more than five years	**826**	1,442
Within a period of more than five years	**1,049**	–
	3,940	4,798
Less: Amount due for settlement with 12 months shown under current liabilities	**(1,338)**	(2,067)
Amount due for settlement after 12 months shown under non-current liabilities	**2,602**	2,731

The incremental borrowing rates applied to lease liabilities range from 2.61% to 5.88% (2021: from 2.61% to 5.88%).

33. BORROWINGS

	2022 HK$'000	2021 HK$'000
Bank loans	**11,443**	12,023
Bank overdraft	**994**	–
Other loans	**97,306**	106,465
	109,743	118,488
Analysed as:		
Secured	**91,638**	85,084
Unsecured	**18,105**	33,404
	109,743	118,488
The carrying amounts of the above borrowings are repayable:		
On demand or within one year	**101,794**	109,808
More than one year but not exceeding two years	**4,274**	1,632
More than two years but not exceeding five years	**228**	3,522
More than five years	**3,447**	3,526
	109,743	118,488
Analysed as:		
Current	**101,794**	109,808
Non-current	**7,949**	8,680
	109,743	118,488

33. BORROWINGS *(continued)*

The average interest rates at 31 December were as follows:

	2022	2021
Bank loans	**6%**	4%
Other loans	**11%**	11%

Borrowings of approximately HK$97,306,000 (2021: HK$106,465,000) 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 2022 of approximately HK$61,600,000 (2021: HK$56,000,000) and investment properties with carrying amount as at 31 December 2022 of approximately HK$8,686,370 (2021: HK$8,571,000) were pledged as security for the Group's other loan with carrying amount as at 31 December 2022 of approximately HK$76,250,000 respectively (2021: HK$69,050,000).

(ii) At 31 December 2022, the Group's borrowing of approximately HK$11,443,000 (2021: HK$12,023,000) 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$4,674,000 and HK$4,020,000 respectively (2021: HK$4,676,000 and HK$4,011,000 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$17,004,000 (2021: HK$15,532,000) as at 31 December 2022.

34. CONTINGENT CONSIDERATION PAYABLES

	HK$'000
At fair value	
At 1 January 2021	–
Acquisition of a subsidiary (Note 37)	82,329
Change in fair value	2,354
At 31 December 2021 and 1 January 2022	84,683
Transfer to convertible bonds	**(43,354)**
Change in fair value	**(12,271)**
At 31 December 2022	**29,058**

34. CONTINGENT CONSIDERATION PAYABLES *(continued)*

	2022 HK$'000	2021 HK$'000
Analysed as:		
Current	29,058	73,733
Non-current	–	10,950
	29,058	84,683

Pursuant to sale and purchase agreement, 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 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:

$$\text{First Consideration Payable} \quad \times \quad \frac{\text{Actual profits for the First Relevant Period}}{\text{First Guaranteed Profits}}$$

34. 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:

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

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:

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

34. 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 fair value of approximately HK$43,354,000.

The aggregate fair value of contingent consideration payables arising from each tranche of convertible bonds was estimated by an independent valuer — LCH (2021: LCH). The fair value was estimated by using Monte Carlo simulation analysis, which is based on discounted probability-adjusted profit or loss projection. These 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 and the fair value as at 31 December 2022 of the 4th and 5th Tranche (2021: 2nd to 4th Tranche) Convertible Bonds.

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.

35. CONVERTIBLE BONDS

Save as disclosed in notes 34 and 37 on the consolidated financial statements, the Company has committed to issue of Convertible Bonds (the "CB") to the vender 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 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 per adjusted share and 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. Adjusted if the CB had not been converted, they will be redeemed on maturity date at par. The CB does not bear any 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 component is measured at fair value with changes in fair value recognised in profit or loss. During the year ended 31 December 2022 and 2021, none of the CBs issued have been converted.

35. 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 2021	–	–	–
Upon issue of convertible bonds	40,385	137	40,522
Change in fair value	–	(121)	(121)
Effective interest expense	1,926	–	1,926
At 31 December 2021 and 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	91,161	52	91,213

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 (note 37). The CB contain two components, a liability component and a derivative component representing the conversion option and the early redemption option. 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 component 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 follows:

	At 27 May 2021	At 31 December 2021	At 31 December 2022
Conversion period start date	27 May 2021	27 May 2021	27 May 2021
Conversion period end date	27 May 2024	27 May 2024	27 May 2024
Maturity date	27 May 2024	27 May 2024	27 May 2024
Time to maturity	3 years	2.41 years	1.41 years
Conversion price	HK$2.00*	HK$2.00*	HK$10.00*
Expected volatility	113%	112%	126%
Expected dividend yield	Nil	Nil	Nil
Risk-free rate	0.20%	0.68%	4.26%
Discount rate	8.08%	8.72%	12.11%
Percentage of principal amount to be repaid at redemption	100%	100%	100%

* Price adjustment to HK$10.00 following the capital reorganisation of the Company on 27 June 2022.

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 34. 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%.

35. CONVERTIBLE BONDS *(continued)*

2nd Tranche Convertible Bonds *(continued)*

The fair values of the derivative component 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 1 July 2022	At 31 December 2022
Conversion period start date	1 July 2022	1 July 2022
Conversion period end date	1 July 2025	1 July 2025
Maturity date	1 July 2025	1 July 2025
Time to maturity	3 years	2.50 years
Conversion price	HK$10	HK$10
Expected volatility	107%	126%
Expected dividend yield	Nil	Nil
Risk-free rate	2.6%	4.02%
Discount rate	17.65%	17.60%
Percentage of principal amount to be repaid at redemption	100%	100%

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 34. The fair value of the liability component and derivative component 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 component 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 4 November 2022	At 31 December 2022
Conversion period start date	4 November 2022	4 November 2022
Conversion period end date	4 November 2025	4 November 2025
Maturity date	4 November 2025	4 November 2025
Time to maturity	3 years	2.85 years
Conversion price	HK$10	HK$10
Expected volatility	108%	126%
Expected dividend yield	Nil	Nil
Risk-free rate	4.48%	4.02%
Discount rate	15.11%	17.11%
Percentage of principal amount to be repaid at redemption	100%	100%

During the year ended 31 December 2022 and 2021, none of the CBs issued have been converted.

36. SHARE CAPITAL

	Notes	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2021, 31 December 2021 and 2022	(d)	198,605,703,709	1,986,056

	Notes	Number of shares	Amount HK$'000
Issued and fully paid:			
At 1 January 2021		611,419,079	6,114
Issue of shares			
— shares issued in placing arrangement	(b)	150,000,000	1,500
— debt capitalisation	(c)	390,440,579	3,904
At 31 December 2021 and 1 January 2022		1,151,859,658	11,518
Issue of shares			
— capital reorganisation	(d)	(921,487,727)	(9,215)
— shares issued under rights issue	(e)	691,115,793	6,911
At 31 December 2022		921,487,724	9,214

	Notes	Number of shares **2022**	Number of shares 2021	Amount **2022** **HK$'000**	Amount 2021 HK$'000
Classified as:					
Share capital		**920,687,724**	1,147,859,658	**9,206**	11,478
Obligation under share repurchase arrangement	(a)	**800,000**	4,000,000	**8**	40
		921,487,724	1,151,859,658	**9,214**	11,518

36. SHARE CAPITAL *(continued)*

Notes:

(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 31 December 2022 and 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.

(b) On 7 January 2021, pursuant to a placing agreement dated 22 October 2020 between the Company and a placing agent, the Company issued an aggregate of 150,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.20 per share to independent parties for repayment of the Group's outstanding debts. Details of the share placement were contained in the Company's announcements dated 22 October 2020 and 7 January 2021 and the Company's circular dated 2 December 2020.

(c) On 3 November 2020, the Company entered into a conditional subscription agreement with the creditors, pursuant to which the Company has conditionally agreed to allot and issue to the creditors, and the creditors have conditionally agreed to subscribe for an aggregate of 306,659,459 of the Company's new ordinary shares at subscription price of HK$0.267 per share. The subscription amount payable by the creditors under the subscription agreement shall be satisfied by capitalising the amount owing by the Company to the creditors in an aggregate amount of approximately HK$81,878,000 as at the date of the subscription agreement.

On 22 January 2021, the Company entered into the supplemental subscription agreement with each of Mr. Wong Pui Wang Jefferson ("**Mr. Wong**"), being one of the consultants and creditors of the Group, Mr. Chen Blinglin ("**Mr. Chen**"), being one of the lenders and creditors of the Group and Ms. Ou Zhu ("**Ms. Ou**"), being one of the lenders and creditors of the Group, to increase the size of subscription by each of them.

Pursuant to the supplemental subscription agreement, an aggregate of 83,781,119 additional subscription shares will be allotted and issued by the Company at subscription price of HK$0.267 per share to each of Mr. Wong, Mr. Chen and Ms. Ou by capitalising their amount due from the Company in an aggregate amount of approximately HK$22,370,000.

On 24 May 2021, all of the conditions precedent under the subscription agreement and the supplemental subscription agreement have been fulfilled and the completion of the share subscription has taken place, whereby 390,440,579 subscription shares were allotted and issued to the creditors and lenders at the subscription price of HK$0.267 per subscription share pursuant to the terms of the subscription agreement and the supplemental subscription agreement. The difference between the fair value of the issued shares based on the market price of HK$0.088 per share on 24 May 2021 and the amount owing by the Company to the creditors in an aggregate amount of approximately HK$69,889,000 was accounted for as a gain on extinguishment of financial liabilities by issue of ordinary shares for the year ended 31 December 2021.

Details of the debt capitalisation arrangements were contained in the Company's announcements dated 3 November 2020, 20 November 2020, 22 January 2021, 28 January 2021 and 24 May 2021, and the Company's circular dated 22 April 2021.

All these ordinary shares issued by the Company during the years rank pari passu with the existing ordinary shares in all respects.

36. SHARE CAPITAL *(continued)*

Notes: *(continued)*

(d) On 27 June 2022, the Company implemented capital reorganisation (the "**Capital Reorganisation**"), which involves the following:

(i) every five issued and unissued existing shares of par value of HK$0.01 each will be consolidated into one share of par value of HK$0.05 each (the "**Share Consolidation**");

(ii) following the Share Consolidation, the issued share capital of the Company was reduced through a cancellation of the paid-up capital of the Company to the extent of HK$0.04 on each of the issued shares such that the par value of each issued share was reduced from HK$0.05 to HK$0.01 (the "**Capital Reduction**");

(iii) immediately following the Capital Reduction, each of the authorised but unissued shares of HK$0.05 each are sub-divided into 5 new shares of HK$0.01 each. The new shares in issue immediately following the Capital Reorganisation becoming effective will rank pari passu with each other in all respects.

As a result of the Capital Reduction, a credit of approximately HK$9,215,000 adjusted for HK$40,000 share consolidation of HK$32,000 resulting in HK$9,183,000 deducted from the share capital.

Details of the Capital Reorganisation were contained in the Company's announcement dated 23 March 2022 and the Company's circular dated 2 June 2022.

(e) On 16 August 2022, the Company issued an aggregate of 691,115,793 new ordinary shares 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 right 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.

37. ACQUISITION OF A SUBSIDIARY

On 11 September 2019, the Group as a purchaser entered into sale and purchase agreement, and subsequently revised by supplemental agreements, with an independent third party as the vendor to acquire 51% of equity interests in Hubei Jincaotang at the total consideration of HK$170 million. The acquisition was completed on 27 May 2021, which is also the acquisition date for accounting purpose. The total consideration of HK$170 million will be settled by issuance of convertible bonds by the Company to the vendor at a conversion price of HK$2 per conversion share in aggregate five tranches of convertible bonds, subject to profit guarantee arrangement as disclosed in note 34. At the acquisition date, convertible bonds with aggregate principal amount of HK$51,000,000 were issued to the Vendor. The fair value of the convertible bonds was estimated using Binomial Pricing Model at the completion date.

Hubei Jincaotang is engaged in the trading of Chinese herbs in the PRC. The acquisition was made as part of the Group's strategy to commence the Chinese Herbs business and the decoction business and derive dividend income from the Company's investment in Hubei Jincaotang.

The Group has elected to measure the non-controlling interests in Hubei Jincaotang at the non-controlling interest's proportionate share of fair values of Hubei Jincaotang 's identifiable net assets.

The fair value of the identifiable assets acquired and liabilities assumed of the acquiree as at the date of acquisition were as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	33,011
Other intangible assets	47,818
Inventories	20,630
Trade receivables	14,444
Prepayment	38
Cash and cash equivalents	31,028
Trade payables	(5,861)
Accruals and other payables	(3,458)
Deferred tax liabilities	(7,920)
Total identifiable net assets at fair value	129,730
Non-controlling interests	63,567
Consideration	122,851
Less: Share of fair value of net assets acquired	(66,163)
Goodwill	56,688
Total purchase consideration satisfied by:	
Convertible bonds	40,522
Contingent consideration payables	82,329
	122,851
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	31,028

37. ACQUISITION OF A SUBSIDIARY *(continued)*

Goodwill arising on the acquisition of Hubei Jincaotang was determined based on the fair value of the net identifiable assets acquired. The management of the Company has engaged an independent professional valuer, LCH, to carry out a valuation on the fair value of the net identifiable assets acquired as at date of acquisition. The goodwill arose from the acquisition of Hubei Jincaotang mainly represented significant future prospect and the business value of Hubei Jincaotang.

Since the acquisition date, Hubei Jincaotang has contributed revenue of approximately HK$59,405,000 and a profit after income tax of approximately HK$9,566,000 to the Group for the year ended 31 December 2021. If the acquisition had occurred on 1 January 2021, consolidated revenue and consolidated loss after income tax of the Group for the year ended 31 December 2021 would have been approximately HK$384,541,000 and HK$196,743,000 respectively.

38. 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 2022 and 2021.

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 2022 was 166.6% (2021: 245.5%).

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

39. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2022 **HK$'000**	2021 HK$'000
Financial assets:		
Financial assets at amortised costs	**204,119**	279,878
Equity investments at FVTOCI	**–**	–
Financial liabilities:		
Financial liabilities at amortised costs	**544,642**	637,297
Financial liabilities at FVTPL	**29,058**	84,683
Derivative component of convertible bonds	**52**	16

39. 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:

	2022		2021	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
RMB	**180,927**	**51,283**	174,027	47,558

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.

39. 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$'000
At 31 December 2022		
If HK$ weakens against RMB	5	6,482
If HK$ strengthens against RMB	(5)	(6,482)
At 31 December 2021		
If HK$ weakens against RMB	5	6,323
If HK$ strengthens against RMB	(5)	(6,323)

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.

39. 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 has significantly increased compare to last year as 24% (2021: 1%) and 68% (2021: 33%) 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 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$164,000 recognised (2021: reversal of HK$1,104,000 was recognised) 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

Apart from the credit-impaired other receivables as disclosed in the note below, the credit risk on other receivables is also limited because of the natures of these balances, credit quality of the counterparties and the historical settlement record.

39. FINANCIAL INSTRUMENTS *(continued)*

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

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

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

2022	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised costs				
Trade receivables	26	**(note i)**	**Lifetime ECL**	**60,921**
Bill receivables	26	**N/A**	**12-month ECL**	**7,108**
Other receivables	27	**(note ii)**	**12-month ECL**	**47,732**
Bank balances and cash	28	**N/A**	**12-month ECL**	**99,058**

2021	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount HK$'000
Financial assets at amortised costs				
Trade receivables	26	(note i)	Lifetime ECL	38,168
Bill receivables	26	N/A	12-month ECL	8,265
Other receivables	27	(note ii)	12-month ECL	43,537
Bank balances and cash	28	N/A	12-month ECL	201,113

Notes:

(i) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL.

(ii) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 31 December 2022 and 2021, these balances are either not past due or do not have fixed repayment.

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For the year ended 31 December 2022

39. FINANCIAL INSTRUMENTS *(continued)*

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

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

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).

	2022		2021	
Gross carrying amount	**Average loss rate**	**Gross trade receivables**	Average loss rate	Gross trade receivables
Current (not past due)	**0%**	**40,568**	0%	17,082
Within 90 days past due	**0%**	**6,856**	0%	9,591
91 days to 180 days past due	**0%**	**2,532**	0%	193
181 days to 360 days past due	**0%**	**265**	0%	97
Over 360 days past due	**100%**	**10,700**	100%	11,205
		60,921		38,168

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 2022, the Group provided approximately HK$164,000 (2021: reversal of HK$1,104,000) impairment allowance for trade receivables, based on the provision matrix.

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 2021	12,115
Impairment losses reversed	(1,104)
Exchange difference	194
As at 31 December 2021 and 1 January 2022	11,205
Impairment loss recognised	164
Exchange difference	(669)
As at 31 December 2022	10,700

39. FINANCIAL INSTRUMENTS *(continued)*

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

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

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

	2022 HK$'000	2021 HK$'000
Changes in average loss rate/Net remeasurement of loss allowance	**164**	(1,104)
Exchange difference	**(669)**	194
	(505)	(910)

(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 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

39. FINANCIAL INSTRUMENTS *(continued)*

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

(iii) Liquidity risk (continued)

	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 2021						
Trade payables	17,467	–	–	–	17,467	17,467
Accruals and other payables	203,420	–	–	–	203,420	203,420
Amount due to an associate	192	–	–	–	192	192
Promissory notes	250,621	–	–	–	250,621	250,621
Lease liabilities	2,259	2,126	768	–	5,153	4,798
Borrowings	110,549	1,537	5,775	5,952	123,813	118,488
Convertible bonds						
— liability component	–	–	51,000	–	51,000	42,311
	584,508	3,663	57,543	5,952	651,666	637,297

40. 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:			
	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
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**
At 31 December 2021				
Recurring fair value measurements:				
Leasehold land and building				
— Hong Kong	–	–	57,600	57,600
Investment properties				
— Hong Kong	–	–	3,900	3,900
— The PRC	–	–	8,571	8,571
	–	–	12,471	12,471
Contingent consideration payables	–	–	84,683	84,683
Convertible bonds — derivative component	–	–	16	16

40. 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	Financial assets at FVTOCI HK$'000	Contingent consideration payables HK$'000	Biological assets HK$'000	Convertible bonds — derivative component HK$'000
At 1 January 2021	12,243	57,600	–	–	–	–
Total gains or losses recognised						
in profit or loss	–	–	–	2,354	–	(121)
in other comprehensive income	–	6,001	–	–	–	–
Acquisition of a subsidiary (note 37)	–	–	–	82,329	–	–
Issued	–	–	–	–	–	137
Adjustment on revaluation	–	(6,001)	–	–	–	–
Exchange differences	228	–	–	–	–	–
At 31 December 2021 and 1 January 2022	12,471	57,600	–	84,683	–	16
Total gains or losses recognised						
in profit or loss	**1,915**	**–**	**–**	**(12,475)**	**–**	**(168)**
in other comprehensive income	**–**	**11,760**	**–**	**–**		**–**
Issued	**–**	**–**	**–**	**–**	**–**	**204**
Transfer to CB	**–**	**–**	**–**	**(43,150)**	**–**	**–**
Additions	**–**	**–**	**–**	**–**	**5,198**	**–**
Adjustment on revaluation	**–**	**(6,160)**	**–**	**–**	**–**	**–**
Exchange differences	**(700)**	**–**	**–**	**–**	**–**	**–**
At 31 December 2022	**13,686**	**63,200**	**–**	**29,058**	**5,198**	**52**

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 profit or loss.

(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.

40. 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	Unchange	**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 Carto 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 25)	**5,198**
Convertible bonds — derivative component	Binomial option pricing model	Expected volatility of share price	126.016%	Increase (Note c)	**52**

(a) A 5% increase/decrease in the simulated profit of Hubei Jincaotang used in isolation would not result in a significant increase/decrease in the fair value measurement of the contingent consideration payables. At 31 December 2022, contingent consideration payables consisted of tranche #4 and tranche #5 of which tranche #4 has already passed its guaranteed period and pending the issue of the Auditor's Certificate. There is no change in the fair value of the contingent consideration payables arising from an increase/decrease 5% of the simulated profit of Hubei Jincaotang as the simulated profit before tax is significant higher than the guarantee profits in the Final Relevant Period.

(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 HK1,453,000, 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 HK3,000, respectively.

40. 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 2021

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$1,300,000 to HK$2,600,000 per unit	Increase	3,900
Investment properties — the PRC	Direct comparison approach	Market price of office	RMB9,900 (equivalent to HK$11,800) per square meter	Increase	8,571
Leasehold land and building — Hong Kong	Direct comparison approach	Market price of the commercial units	HK$1,600,000 per unit	Increase	1,600
Leasehold land and building — Hong Kong	Direct comparison approach	Market price of the commercial units	HK$3,800 per square feet	Increase	56,000
Contingent consideration payables	Monte Carto simulation — discounted probability-adjusted profit or loss projection	Simulated profit of Hubei Jincaotang	RMB44,746,000 to RMB58,019,292	Increase (Note a)	84,683
		Fair value of the underlying CB	HK$11,436,000 to HK$41,729,000	Increase (Note b)	
Convertible bonds — derivative component	Binomial option pricing model	Expected volatility of share price	112%	Increase (Note c)	16

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.

41. 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.

There was no share option outstanding as at 31 December 2022 and 2021.

42. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

Statement of Financial Position of the Company

	2022 HK$'000	2021 HK$'000
Non-current assets		
Investments in subsidiaries	**197,795**	197,795
Amount due from subsidiaries	**1,197,667**	1,202,282
	1,395,462	1,400,077
Current assets		
Prepayments, deposits and other receivables	**17,235**	11,598
Bank balances and cash	**5**	1,951
	17,240	13,549
Current liabilities		
Accruals and other payables	**96,475**	72,320
Amount due to subsidiaries	**762,857**	746,610
Promissory notes	**164,820**	250,621
Borrowings	**10,114**	24,195
Contingent consideration payables	**29,058**	73,733
	1,063,324	1,167,479
Net current liabilities	**(1,046,084)**	(1,153,930)
Total assets less current liabilities	**349,378**	246,147
Non-current liabilities		
Convertible bonds	**91,213**	42,327
Contingent consideration payables	**–**	10,950
	91,213	53,277
Net assets	**258,165**	192,870
Equity		
Share capital	**9,206**	11,478
Reserves	**248,959**	181,392
Total equity	**258,165**	192,870

Zhang Qijun
Director

Liu Mingqing
Director

42. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY *(continued)*

Reserve

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2021	1,591,305	125,161	(1,634,518)	81,948
Total comprehensive income for the year	–	–	40,490	40,490
Issue of shares for loan capitalisation (note 36(c))	30,454	–	–	30,454
Issue of shares under share placement (note 36(b))	28,500	–	–	28,500
At 31 December 2021 and 1 January 2022	1,650,259	125,161	(1,594,028)	181,392
Total comprehensive loss for the year	–	–	(66,181)	(66,181)
Capital reorganisation (note 36(d))	–	–	1,223	1,223
Issue of shares from rights issue (note 36(e))	132,525	–	–	132,525
At 31 December 2022	**1,782,784**	**125,161**	**(1,658,986)**	**248,959**

43. CAPITAL COMMITMENT

The Group did not have any significant capital commitment at 31 December 2022 and 2021.

44. CONTINGENT LIABILITIES

As at 31 December 2022 and 31 December 2021, the Group had no material contingent liabilities.

45. 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:

	2022 HK$'000	2021 HK$'000
Product development, sale and marketing services fee paid to Miracles for Fun USA, Inc. (note)	**5,426**	4,470

Note:

The sole owner of Miracles for Fun USA, Inc. is the director and beneficial owner of 49% (2021: 49%) equity interest in the Company's subsidiary, Better Sourcing Worldwide Limited.

45. RELATED PARTY TRANSACTIONS *(continued)*

(b) Outstanding balance with related parties

(i) Included in prepayments, deposits and other receivables

	2022 HK$'000	2021 HK$'000
Amount due from Miracles for Fun USA, Inc.	**110**	269

(ii) Included in accruals and other payables

	2022 HK$'000	2021 HK$'000
Amounts due to directors (Note)	**919**	728
Amount due to a relative of a director, Li Pik Ha (Note)	**366**	366
	1,285	1,094

Notes:

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

(c) Key management compensation

	2022 HK$'000	2021 HK$'000
Salaries, allowances and benefits in kind	**15,519**	12,678
Retirement benefits scheme contributions	**776**	602
	16,295	13,280

(d) Guarantee provided by related parties

As at 31 December 2022, the Group's borrowings of approximately HK$11,443,000 (2021: HK$12,023,000) were secured by a personal guarantee by directors or senior management of the Company's subsidiaries.

46. 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 2021	4,415	256,320	121,760	–	382,495
Additions	2,304	–	43,243	40,522	86,069
Change in cash flows	(2,118)	–	(32,480)	–	(34,598)
Non-cash changes					
– Finance leases charges (included in interest expense)	182	–	–	–	182
– Settlement of other payables and borrowings by issuance of promissory notes	–	52,336	–	–	52,336
– Exchange difference	15	–	412	–	427
– Fair value change	–	–	–	(121)	(121)
Settlement of promissory notes					
– by cash	–	(17,221)	–	–	(17,221)
– issue of new shares	–	(40,814)	(14,448)	–	(55,262)
Imputed interest	–	–	–	1,926	1,926
At 31 December 2021 and 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**
– Settlement of other payables and borrowings by issuance of promissory notes	**–**	**–**	**–**	**–**	**–**
– 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)**
– issue of new shares	**–**	**–**	**–**	**–**	**–**
Imputed interest	**–**	**–**	**–**	**5,700**	**5,700**
At 31 December 2022	**3,940**	**164,820**	**109,743**	**91,213**	**369,716**

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

(b) Major non-cash transactions

(i) Debt capitalisation

As disclosed in note 36(c), the Company issued 394,440,579 shares to the creditors and lenders for settlement of the Group's borrowing and other payables during the year ended 31 December 2021 as offset of the liabilities.

(ii) Convertible bonds

As details in note 35, total amount of contingent consideration payables were transferred to CB approximately HK$43,354,000 were issued to the vender subject to the profit guarantee arrangementduring the year ended 31 December 2022.

47. LITIGATIONS

(a) Guo Jingsheng

On 8 June 2016 and 19 July 2016, the Company and a director of the Company received from Mr. Guo Jingsheng ("**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 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 2022 and 2021.

(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.

47. LITIGATIONS *(continued)*

(b) Everbright Centre *(continued)*

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$2,500,000. As at 31 December 2022, the accumulated interest, rent and administrative fees accrued for the postponement of payment is approximately HK$795,000 (2021: HK$3,295,000) which is included in accruals and other payables.

(c) Veda Capital Limited

On 17 July 2020, the Company received a writ of summons from Veda Capital Limited issued by the District Court of the Hong Kong Special Administrative Region for a claim of HK$803,000 for the provision of consultancy service fee against the Company.

As at 31 December 2022, the above claim is fully settled.

48. CONTINGENT GAIN

At 31 December 2022 and 2021, included in the promissory notes (see note 31) 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 20% equity interests of the Eagle Praise Group, a company incorporated in the BVI with limited liability and the investment cost of approximately HK$117,761,000 in this associate was fully impaired and written off. 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 Eagle Praise Group. 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 Eagle Praise Group 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.

49. INVESTMENTS IN SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2022 and 2021 are as follows:

Company name	Place of incorporation/ registration and operation	Issued and paid up capital	Percentage of ownership interest	Principal activities
Super Dragon Management Limited	BVI, limited liability company	1 ordinary share of US$1 each	100%	Provision of management service, Hong Kong
Better Sourcing Worldwide Limited	Hong Kong, limited liability company	HK$100	51%	Trading of gifts and toys, Hong Kong
Kiu Hung Industries Limited	Hong Kong, limited liability company	HK$1,000	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%	Investment holding, Hong Kong
Toland International Limited	Hong Kong, limited liability company	HK$4,200,000	70%	Trading of flags and garden products, Hong Kong
福建奇嘉禮品玩具有限公司 (Fujian Kcare Giftoys Co., Ltd.*)	The PRC, limited liability company	RMB10,000,000	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%	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%	Trading of flags and garden products, the USA
Hubei Jincaotang	The PRC, limited liability company	RMB30,000,000	51%	Development, processing and trading of Chinese herb, the PRC

* *For identification purpose*

49. 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	
		2022	2021	**2022 HK$'000**	2021 HK$'000	**2022 HK$'000**	2021 HK$'000
Hubei Jincaotang	PRC	**49%**	49%	**19,077**	4,687	**82,449**	68,205

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 year ended 31 December 2022 and for the period from 27 May 2021 (date of acquisition) to 31 December 2021

	2022 HK$'000	2021 HK$'000
Revenue	**127,862**	59,405
Expenses and taxation	**(88,929)**	(49,839)
Profit for the year	**38,933**	9,566
Profit for the year attributable to:		
Owners of the Company	**19,856**	4,879
Non-controlling interests of the Group	**19,077**	4,687
	38,933	9,566
Other comprehensive (expenses)/income attributable to owners of the Company	**(5,031)**	690
Other comprehensive expense attributable to non-controlling interests	**(4,833)**	(49)
Other comprehensive (expenses)/income for the year	**(9,864)**	641
Total comprehensive income attributable to owners of the Company	**14,825**	5,569
Total comprehensive income attributable to non-controlling interests	**14,244**	4,638
Total comprehensive income for the year	**29,069**	10,207

49. INVESTMENTS IN SUBSIDIARIES *(continued)*

Hubei Jincaotang *(continued)*

Financial information of statement of financial position as at 31 December 2022 and 2021

	2022 HK$'000	2021 HK$'000
Non-current assets	34,930	60,386
Current assets	143,412	89,639
Non-current liabilities	(1,508)	(5,092)
Current liabilities	(7,830)	(4,997)
Net assets	169,004	139,936
Equity attributable to:		
Owners of the Company	86,555	71,731
Non-controlling interests of the Group	82,449	68,205
Total equity	169,004	139,936

Financial information of statement of cash flows

	2022 HK$'000	2021 HK$'000
Net cash inflow from operating activities	30,725	32,809
Net cash outflow from investing activities	(2,369)	–
Net cash inflow from financing activities	–	–
Net cash inflow	28,356	32,809

Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

50. EVENTS AFTER THE REPORTING PERIOD

(i) Proposed share consolidation

On the 10 March 2023, the Directors resolved to propose a share consolidation on the basis that every five (5) issued and unissued existing Shares of HK$0.01 each be consolidated into one (1) Consolidated Share of HK$0.05 each in the view that the Shares had been traded at below HK$0.10 in the past three months (based on the closing price per Share as quoted on the Stock Exchange). An application will be made by the Company to the Stock Exchange for the listing of, and the permission to deal in, the Consolidated Shares. Details of the proposed share consolidation are set out in the Company's announcement dated 10 March 2023 and 17 March 2023.

(ii) 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 and 21 March 2023. As at the report date, the proposed acquisition is not yet completed.

51. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 31 March 2023.

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

	Year ended 31 December				
	2022	2021	2020	2019	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**420,904**	323,718	203,351	199,952	214,605
Loss before income tax	**(29,393)**	(219,463)	(69,075)	(302,187)	(223,136)
Income tax (expenses)/credit	**(9,108)**	(1,033)	(1,027)	(138)	11,566
Loss for the year	**(38,501)**	(220,496)	(70,102)	(302,325)	(211,570)
Attributable to:					
Owners of the Company	**(59,521)**	(226,754)	(71,776)	(301,937)	(208,066)
Non-controlling interests	**21,020**	6,258	1,674	(388)	(3,504)
	(38,501)	(220,496)	(70,102)	(302,325)	(211,570)

ASSETS AND LIABILITIES

	As at 31 December				
	2022	2021	2020	2019	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Restated)
Total assets	**879,939**	956,439	852,889	827,873	913,547
Total liabilities	**(594,931)**	(744,245)	(558,898)	(496,166)	(457,769)
Net assets	**285,008**	212,194	293,991	331,707	455,778
Equity attributable to owners of the Company	**185,734**	135,127	286,908	326,298	449,981
Non-controlling interests	**99,274**	77,067	7,083	5,409	5,797
Total equity	**285,008**	212,194	293,991	331,707	455,778