# Differ Group Auto Limited
# 鼎豐集團汽車有限公司

(Incorporated in the Cayman Islands with limited liability)

**Stock Code: 6878**

# 2023
## Annual Report

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# CORPORATE INFORMATION

**EXECUTIVE DIRECTORS**
Mr. NG Chi Chung
*(Chairman and Chief Executive Officer)*
Dr. FENG Xiaogang
Mr. TONG Lu *(appointed on 15 May 2023)*

**NON-EXECUTIVE DIRECTORS**
Mr. KANG Fuming
Mr. XU Yiwei *(resigned on 4 June 2024)*

**INDEPENDENT NON-EXECUTIVE DIRECTORS**
Mr. CHAN Sing Nun
Mr. LAM Kit Lam
Mr. CHEN Naike *(resigned on 15 May 2023)*
Ms. CHUANG Yin Lam *(appointed on 15 May 2023)*

**REGISTERED OFFICE**
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

**HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC**
Unit 1309
13/F., Xinjingdi Building
469 Gaolin Middle Road
Huli District
Xiamen City
Fujian Province
PRC

**PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART XI OF THE COMPANIES ORDINANCE**
Unit 2105 on 21/F of West Tower
Shun Tak Centre, Nos. 168–200
Connaught Road Central
Hong Kong

**COMPANY SECRETARY**
Mr. KO Leong

**AUDITOR**
Yongtuo Fuson CPA Limited
(currently practising under the name of SFAI (HK) CPA Limited)

**AUTHORISED REPRESENTATIVES**
Mr. NG Chi Chung
Mr. KO Leong

**MEMBERS OF AUDIT COMMITTEE**
Mr. CHAN Sing Nun *(Chairman)*
Mr. LAM Kit Lam
Mr. KANG Fuming

**MEMBERS OF REMUNERATION COMMITTEE**
Mr. LAM Kit Lam *(Chairman)*
Mr. NG Chi Chung
Mr. CHAN Sing Nun

**MEMBERS OF NOMINATION COMMITTEE**
Mr. NG Chi Chung *(Chairman)*
Mr. LAM Kit Lam
Mr. CHAN Sing Nun

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

**HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

**PRINCIPAL BANKERS**
Industrial and Commercial Bank of China
China Construction Bank
Tianjin Binhai Rural Commercial Bank Corporation
Bank of Communications

**COMPANY WEBSITE**
www.dfh.cn

**STOCK CODE**
06878

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Income from automobile e-commerce business | **11,616** | 135,790 | 21,490 | – | – |
| Income from assets management business | **2,062,852** | 426,424 | 917,906 | 709,115 | 777,613 |
| Income from trading of commodities | **59,319** | 269,531 | 120,958 | 5,196,314 | 1,329,594 |
| Income from financial related services | **117,806** | 175,977 | 199,378 | 185,077 | 144,634 |
| Other income | **96,941** | 95,489 | 66,642 | 79,122 | 53,686 |
| Costs of automobile e-commerce business | **(11,680)** | (107,165) | (18,513) | – | – |
| Costs of property sold | **(1,542,253)** | (350,358) | (584,555) | (437,746) | (539,075) |
| Costs of trading of commodities | **(59,397)** | (269,312) | (120,837) | (5,190,210) | (1,328,264) |
| (Loss)/gain on disposals of subsidiaries | **(47,223)** | (58,484) | 140,683 | 109,241 | 72,888 |
| Employee benefit expenses | **(39,414)** | (66,629) | (60,163) | (69,765) | (59,949) |
| Depreciation expenses | **(7,726)** | (15,681) | (20,746) | (19,781) | (16,692) |
| Short-term lease expenses | **(694)** | (1,487) | (975) | (154) | (1,195) |
| Equity-settled share-based payments | **–** | – | – | (335) | (1,624) |
| Other expenses | **(2,404,060)** | (365,556) | (150,409) | (113,647) | (97,739) |
| Share of results of associates | **(232,654)** | (9,814) | (21,113) | 128,420 | 124 |
| Share of results of joint ventures | **–** | – | – | (13,619) | 11,088 |
| Gain on disposal of investment properties | **–** | – | – | 2,988 | 61,874 |
| Gain on bargain purchase arising from acquisition of subsidiaries | **–** | 28,866 | – | – | – |
| Change in fair value of investment properties | **(155,166)** | 14,444 | 121,794 | 23,344 | 72,362 |
| Change in fair value of other financial assets | **(67,789)** | 41,742 | 61,076 | 3,017 | (863) |
| Finance costs | **(129,572)** | (73,582) | (48,051) | (88,610) | (43,353) |
| (Loss)/profit before income tax | **(2,349,094)** | (129,805) | 624,565 | 502,771 | 435,109 |
| Income tax expense | **(173,311)** | (50,552) | (186,239) | (149,441) | (98,978) |
| (Loss)/profit for the year | **(2,522,405)** | (180,357) | 438,326 | 353,330 | 336,131 |
| Attributable to: | | | | | |
| Owners of the Company | **(2,522,332)** | (180,205) | 440,759 | 356,115 | 335,503 |
| Non-controlling interests | **(73)** | (152) | (2,433) | (2,785) | 628 |
| | **(2,522,405)** | (180,357) | 438,326 | 353,330 | 336,131 |

# FINANCIAL SUMMARY

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **6,002,417** | 8,814,827 | 8,319,847 | 8,148,490 | 5,937,918 |
| Total liabilities | **(5,835,475)** | (6,289,955) | (5,598,455) | (5,800,170) | (4,346,667) |
| Non-controlling interests | **225** | 152 | – | (42,288) | (4,098) |
| Equity attributable to owners of the Company | **167,167** | 2,525,024 | 2,721,392 | 2,306,032 | 1,587,153 |

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Differ Group Auto Limited (the "Company") and its subsidiaries (collectively, the "Group"), I would like to present to our shareholders the annual report of the Group for the year ended 31 December 2023 (the "Year").

**BUSINESS REVIEW**

The Group recorded revenue of approximately RMB2,251.6 million for the year ended 31 December 2023, representing a increase of approximately 123.4% as compared with the revenue of RMB1,007.7 million for the year ended 31 December 2022 which was mainly attributable to increase in the revenue from real estate business in asset management segment from approximately RMB426.4 million in 2022 to RMB2,062.9 million in 2023, representing increase of approximately 383.8%. Loss attributable to owners of the Company for the Year increased from loss of approximately RMB180.2 million in 2022 to loss of approximately RMB2,522.3 million in 2023, representing an increase of approximately 1,299.7% as compared with the last year, which was mainly attributable to impairment loss of inventories of properties of approximately RMB162.2 million, fair value loss of investment properties of approximately RMB155.2 million and impairment loss on financial assets of approximately RMB2,075.9 million incurred during the Year.

**PROSPECTS**

It is anticipated that uncertainties in the PRC's economic growth and geopolitical environment continue to have a negative impact on the post-pandemic recovery of the PRC in the short run. Thus, the Group will continue to ensure stable operation of its existing business lines, including real estate projects in the asset management business. The Group will continue to adopt a prudent approach to the asset management business, by closely monitoring the rapidly changing environment of the Chinese property market, seizing various opportunities to transact for valuable assets at a suitable time and ensuring steady income streams to generate satisfactory returns for shareholders.

The Company is facing the winding up petition filed by its creditors. In such circumstance, a restructuring adviser has been engaged by the Company in preparing a liquidation analysis of the Company and assisting the directors of the Company to formulating a viable restructuring plan with the detailed terms thereof. The winding up proceedings remain in process at the High Court of Hong Kong, while the Company has applied to the High Court of Hong Kong for a proposed scheme of arrangement to be entered into between the Company and certain creditors of the scheme.

On 6 June 2024, the High Court has granted an order to the Company to convene a meeting of the creditors of the Company for the Scheme. Such creditors' meeting is tentatively scheduled to be held on 16 August 2024 and the sanction hearing of the High Court for the Scheme is tentatively fixed on 17 September 2024.

# CHAIRMAN'S STATEMENT

## APPRECIATION

I express my sincere gratitude to all shareholders, investors, customers and business partners for maintaining their support and confidence of the Group over the years. I would also like to express my heartfelt appreciation to all the Board members and staff of the Group for their valuable contribution. In the future, the Company will continue to strive for sustainable and satisfactory returns for all of its shareholders.

**Mr. Ng Chi Chung**
*Chairman*

Hong Kong
19 July 2024

# DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

**EXECUTIVE DIRECTORS**

**Mr. NG Chi Chung** (吳志忠), aged 51, was appointed as an executive director on 26 November 2013. Mr. Ng is the chairman and chief executive officer of the Company. Mr. Ng is responsible for the overall strategic formulation, business development and financial management of the Group. Mr. Ng attended and completed a long distance learning course in economic management organized by Beijing Economic Management Open Institute (北京經濟管理函授學院) in January 2008. Mr. Ng has previously worked at various companies in Hong Kong and Shishi, Fujian Province (福建省石獅市), and has over 10 years' experience in corporate management. From 2002 to 2008, Mr. Ng was a member of the senior management of a vehicle trading company based in Shishi. Mr. Ng joined the Group in September 2008.

**Dr. FENG Xiaogang** (馮晓剛), aged 58, was appointed as an executive director on 9 December 2021. Dr. Feng is responsible for investment and business management of the Group. Dr. Feng holds a Bachelor of Law degree from Tianjin Normal University, a Master of Business Administration degree from the University of Science and Technology Beijing and a Doctor of Philosophy degree in Management from Twintech International University College of Technology. Dr. Feng currently acts as an investment consultant for various companies in PRC and overseas. Dr. Feng has extensive experience in management and investment. During the period from 2001 to 2013, Dr. Feng was a senior management of Ambow Education Holding Ltd. ("Ambow Education"), a company listed on the New York Stock Exchange. During his tenure at Ambow Education, Dr. Feng led various fund raising, mergers and acquisitions projects. Prior to joining Ambow Education, Dr. Feng also worked in a government entity in the PRC and various international companies and was mainly responsible for investment and business management. Dr. Feng was the chairman and an executive director of Courage Investment Group Limited (Hong Kong stock code: 1145 and Singapore stock code: CIN), a company listed on the Main Board of the Stock Exchange and the Singapore Stock Exchange from 12 January 2021 to 1 January 2022 and re-designated to a non-executive director from 1 January 2022 to 31 December 2022. Dr. Feng was also an executive director of Tack Fiori International Group Limited (now known as Life Healthcare Group Limited) (Hong Kong stock code: 928), a company listed on the Main Board of the Stock Exchange, until 15 February 2016 when he was re-designated as a non- executive director and served until 31 October 2019.

**Mr. Tong Lu** (同路), aged 42, was appointed as an executive director on 15 May 2023. Mr. Tong graduated from Otemon Gakuin University (追手門學院大學), Osaka, Japan, with a Bachelor of Arts degree in 2006. Mr. Tong is in charge of overall operation of the automobile e-commerce business of the Group. After graduating, Mr. Tong worked with BAL Corporation & Co., Ltd as general manager at the international business department for around seven years. From 2014 to present, Mr. Tong works as executive director with Calistar Auto Life Industry Investment Co., Ltd. (開利星空汽車生活產業投資有限公司). Mr. Tong has extensive experience in automobile dealership and import and export trade.

# DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

**NON-EXECUTIVE DIRECTOR**

**Mr. KANG Fuming (康富茗)**, aged 52, was appointed as a non-executive director on 21 April 2022. Mr. Kang graduated from Sichuan Normal College (四川師範學院) (later known as China West Normal University (西華師範大學)) with a diploma in 1994. Mr. Kang has over 26 years of experience in real estate investment, financing, investment and development operations. From 1995 to 1996, Mr. Kang worked with the Guangzhou Branch Office of China Real Estate Group Limited (中國房地產集團有限公司). From 1996 to 2004, Mr. Kang worked with Guangzhou Guangjun Project Management Co., Ltd. (廣州廣駿工程監理有限公司) as Administrative Manager. From 2004 to 2018, Mr. Kang worked as Deputy General Manager with Guangdong Yuehai Lijiang Real Estate Development Limited (廣東粵海麗江房地產發展有限公司). From 2018 to present, Mr. Kang works as General Manager with Guangzhou Jun Zhi Yuan Investment Management Limited (廣州君之源投資管理有限公司), and he is a shareholder and director of Guangzhou Kunyin Zhongli Health Industry Investment Co., Ltd. (廣州坤銀中立健康產業投資有限公司); director of Guangzhou Hefu Investment Development Co. Ltd (廣州禾富投資發展有限公司); and shareholder and director of Lide Business Management Limited (勵德商業管理有限公司).

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

**Mr. CHAN Sing Nun** (陳星能), aged 49, joined the Group as an independent non-executive director on 26 November 2013. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. Mr. Chan has over 15 years' experience in auditing, accounting and financial management. Mr. Chan is a company secretary of Platt Nera International Limited (Hong Kong stock code: 1949) and also a principal of an audit firm in Hong Kong. Other than his directorship in the Company, Mr. Chan served as an independent non-executive director of Fameglow Holdings Limited (Hong Kong stock code: 8603) from 21 September 2018 to 7 January 2021 and is currently an independent non-executive director of Guangdong Kanghua Healthcare Co., Ltd (Hong Kong stock code: 3689).

**Mr. LAM Kit Lam** (林洁霖), aged 49, joined the Group as an independent non-executive director on 7 June 2017. Mr. Lam is an Honorary Citizen of Xiamen City and is the chairman of DEBON Asset Management Inc.. He has over 15 years of experience in the banking industry. He became a deputy general manager of the Bank of East Asia (China) Ltd. ("BEA") Shanghai branch in 2007, he then worked as a general manager at BEA Wuhan branch and subsequently at BEA Xiamen branch until August 2014.

Mr. Lam obtained a bachelor's degree in commerce from the University of Victoria in 1997, a master's degree in world economics from the Beijing University in 2005 and a master's degree in international real estate from the Hong Kong Polytechnic University in 2010. He was appointed as a professional member of the Royal Institution of Chartered Surveyors since 2014. He was a committee member of the Chinese People's Political Consultative Conference ("CPPCC") of Xiamen City (2012) and an invited guest member of CPPCC of Hubei Province (2010). He is currently the vice chairman of the North American Alliance of Commerce Association.

# DIRECTORS' AND SENIOR MANAGEMENT BIOGRAPHICAL DETAILS

**Ms. CHUANG Yin Lam** (莊賢琳), aged 33, joined the Group as an Independent non-executive director on 15 May 2023. Ms. Chuang graduated from University of New South Wales, Australia in 2014 with a Bachelor of Media degree in Public Relations and Advertising. Ms. Chuang has over 8 years of experience in corporate advisory and business development. She joined Computershare Hong Kong Investor Services Limited ("Computershare") in 2014. Up to present, she is currently taking up a duel role as senior manager and personal assistant to the head of Asia of Georgeson LLC, which is an associated company of Computershare Hong Kong Investor Services Limited.

## SENIOR MANAGEMENT

**Mr. CHU Sung Fai** (朱宋輝), aged 66, is the director of one of the subsidiaries and is responsible for the overall business execution and management. Mr. Chu obtained a diploma in management in 1983 from the Open University of Fujian (福建廣播電視大學) (a long distance learning course). Mr. Chu joined the Group in 2011 and he has extensive management experience in financial related services and asset management business.

**Mr. ZHANG Qun** (張群), aged 54, joined the group in 2021 and serves as the financial manager of the automobile e-commerce business, for which he is responsible for accounting and corporate financing activities. Mr. Zhang started his accounting career since 1989 by serving as the general manager of finance department in a vehicle trading company based in Tianjin. He has over 30 years' experience and about 20 years' experience in the fields of accounting and automobile-related business, respectively.

## COMPANY SECRETARY

**Mr. KO Leong** (高亮), aged 36, is the company secretary and authorised representative of the Company. Mr. Ko holds a bachelor degree of Business Administration in Accounting with honors from City University of Hong Kong. Mr. Ko is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of The Taxation Institute of Hong Kong. Mr. Ko joined the Company on 28 August 2023 and he has over 14 years of experience in finance, accounting and auditing with various accounting firms and listed companies in Hong Kong.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the year ended 31 December 2023 (the "Year"), the turnover of the Group was mainly derived from the (i) automobile e-commerce business; (ii) assets management business (including a) property development and investment and b) rental income and management fee income); (iii) provision of financial related services (mainly including express loan services and finance lease services); and (iv) commodity trading business.

## FINANCIAL REVIEW

### Turnover

The turnover increased from approximately RMB1,007.7 million for the year ended 31 December 2022 to approximately RMB2,251.6 million for the Year, representing an increase of approximately RMB1,243.9 million or 123.4%. The increase was attributable to the net effect of the following reasons:

**(i) Automobile e-commerce business**

The Group commenced its automobile e-commerce business in fourth quarter of 2021 under the brand of Cherries Car (車厘籽汽車), which provides comprehensive solutions and services to a wide range of customers ranging from car manufacturers, car dealers to retailing customers. During the Year, the Group faced financial difficulties and operated under significant liquidity pressure, therefore the Group adopted a prudent approach to operate automobile e-commerce business. The business was further affected by factors such as the COVID-19 pandemic and the decline in consumer income, the overall purchasing power of consumers in the PRC has been impacted. The directors of the Company consider that with the shrinking demand for automobile in the market, the overall number of imported automobile in the PRC has been constantly decreasing from 2021 to 2023. Accordingly, the income from automobile e-commerce business decreased significantly from approximately RMB135.8 million in 2022 to approximately RMB11.6 million in 2023, representing a decrease of approximately RMB124.2 million or 91.5% as compared with last year.

**(ii) Assets management business**

***(a) Property development and investment***

The Group recorded income from assets management business is mainly contributed by the sales of properties of Differ One City (鼎豐壹城), Differ Humane Mansion (鼎豐書香豪庭), She People Ancient City (畲鄉古城) and Differ Sky Realm (鼎豐天境). The income of sales of properties increased by 419.5% from approximately RMB392.4 million for 2022 to approximately RMB2,038.7 million for 2023.

Differ One City (鼎豐壹城) is a residential and commercial development located in Longquan City, Zhejiang Province, PRC, comprises properties for residential purposes, shops, a shopping mall and a hotel. The said development covers a total site area of approximately 145,688 sq.m. and a total gross floor area of approximately 560,404 sq.m. upon completion. The revenue from the Differ One City (鼎豐壹城) for 2023 was approximately RMB1,804 million (2022: RMB227.9 million).

She People Ancient City (畲鄉古城) is a commercial cultural development located in Lishui City, Zhejiang Province, PRC, with total site area of approximately 173,934 sq.m. and a total gross floor area of approximately 306,613 sq.m. The revenue from She People Ancient City (畲鄉古城) for 2023 was approximately RMB116.4 million (2022: RMB27.4 million).

Differ Humane Mansion (鼎豐書香豪庭) is a residential development located in Nanan, Fujian Province, PRC, comprises mostly properties for residential purposes and minor areas for commercial use on the ground floor. Differ Humane Mansion (鼎豐書香豪庭) covers a total site area of approximately 23,762 sq.m. and total gross floor area of approximately 85,197 sq.m. The revenue of Differ Humane Mansion (鼎豐書香豪庭) for 2023 was approximately RMB108.5 million (2022: RMB111.8 million).

Differ Sky Realm (鼎豐天境) is a residential development located in Lishui City, Zhejiang Province, PRC, comprises mostly properties for residential purposes and minor areas for commercial use on the ground floor. The said development covers a total site area of approximately 99,729 sq.m. and a total gross floor area of approximately 377,494 sq.m. upon completion. The revenue from the Differ Sky Realm (鼎豐天境) for 2023 was approximately RMB9.8 million (2022: RMB25.3 million).

***(b) Rental income and management fee income***

Apart from the income as mentioned above, the Group also recorded the income from assets management business of approximately RMB24.1 million during the Year (2022: RMB34.0 million). Such income mainly represented the income from rental income, asset management fee income and property management fee income.

**(iii) Financial related services**

***(a) Express loan services***

The Group mainly received interest income from the customers in the PRC and its associate. The Group's express loan service income decreased by 29.9% from approximately RMB161.5 million in 2022 to approximately RMB113.2 million in 2023. The decrease of express loan service income was mainly due to the decrease of average loan receivables during the period.

***(b) Finance lease services***

Our Group mainly provide the finance lease services for machineries, properties and motor vehicles.

Our Group's finance lease services income decreased by 47.7% from approximately RMB8.8 million in 2022 to RMB4.6 million in 2023. The decrease was mainly due to the Group has adopted a prudent and conservative approach to run this business.

***(c) Guarantee services***

The Group did not receive any financing guarantee service income in 2023 (2022: approximately RMB4.4 million). The Group adopted a prudent approach of guarantee business causing the decrease of guarantee income.

**(iv) Commodity trading business**

In 2023, the Group recorded the income from commodity trading business of approximately RMB59.3 million (2022: RMB269.5 million) and the relevant cost of trading of commodities and gross loss were approximately RMB59.4 million (2022: RMB269.3 million) and RMB0.1 million (2022: gross profit RMB0.2 million) respectively. Commodity trading business is usually to be considered as a low profit margin business and it is to reap profit from volume of trade.

**Other income**

Other income increased from approximately RMB95.5 million in 2022 to approximately RMB96.9 million in 2023, representing an increase of approximately RMB1.4 million or 1.5%. The Group's other income in 2023 mainly represented bank and other interest income of RMB50 million and reversal of provision on financial guarantees of RMB42.7 million.

**Costs of property sold**

Costs of properties sold includes the cost of land, development expenditures, borrowing costs capitalised in accordance with the Group's accounting policy and other costs directly attributable to the development of the properties. Revenue and the related cost of properties sold is recognised and transferred to profit or loss for the year when the control over the property has been transferred to the customer, being at a point in time when customer obtains control of completed properties in accordance with the revenue recognition of the Company.

The Group recorded cost of property development of approximately RMB1,542.3 million in 2023 (2022: RMB350.4 million). It mainly represented the land costs, construction costs and other relevant costs for part of i) Differ One City (鼎豐壹城), ii) Differ Humane Mansion (鼎豐書香豪庭), iii) Differ Sky Realm (鼎豐天境) and iv) She People Ancient City (畲鄉古城) projects.

During the Year, the Group recognised the amount of write-down of inventory on properties held for sale of approximately RMB162.2 million (2022: RMB47.3 million). The Group reviewed the market conditions of properties held for sale of the Group as at 31 December 2023, and made write-down of inventory on properties held for sale whose net realizable value was lower than cost. The Group estimates the net realizable value of properties held for sale mainly based on the latest selling prices and current market conditions.

**Employee benefit expenses**

The employee benefit expenses decreased from approximately RMB66.6 million in 2022 to approximately RMB39.4 million in 2023, representing a decrease of approximately RMB27.2 million or 40.8%. Our Group's employee benefit expenses mainly comprised staff salaries, directors' emoluments and other benefits.

**Other expenses**

The other expenses increased from approximately RMB365.6 million in 2022 to approximately RMB2,404.1 million in 2023, representing an increase of approximately RMB2,038.5 million or 557.6%, mainly attributable to the provision of impairment loss on financial assets of approximately RMB2,075.9 million in 2023 which was due to certain debtors failed to settle the consideration receivables, other receivables and the finance lease, loan and account receivables to the Group by due date during the year. The provision of impairment loss on financial assets of approximately RMB2,075.9 million in 2023 mainly represented the impairment loss on financial lease, loan and accounts receivables of RMB879 million and impairment loss on prepayments, deposits and other receivables of RMB1,196.9 million during 2023. For the details of the impairment of financial assets, please refer to section" Reversal of (impairment loss) on financial assets" in Management Discussion and Analysis ("MD&A"). The other expenses mainly comprised advertising expenses, impairment loss on goodwill, legal and professional fee, provision of impairment loss on financial assets and loss on discounting of consideration receivable.

The following table sets forth a breakdown of our other expenses:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Advertising expense | **51,731** | 48,651 |
| Impairment loss on goodwill | **86,034** | 9,997 |
| Legal and professional fee | **34,883** | 17,066 |
| Office expense | **17,555** | 11,811 |
| Provision of impairment loss on financial assets | **2,075,891** | 89,558 |
| Loss on discounting of consideration receivable | **78,658** | — |
| Loss on disposal of other financial assets | **1,685** | — |
| Loss on derecognition of other financial assets | **—** | 14,400 |
| Provision of financial guarantees | **—** | 138,068 |
| Others | **57,623** | 36,005 |
| | **2,404,060** | 365,556 |

**Share of results of associates**

In 2023, the Group recorded share of loss of associate of approximately RMB232.7 million (2022: RMB9.8 million), primarily due to share of loss from Zhongcheng City Development Co., Limited* ("Zhongcheng") (中城城開集團有限公司). The share of loss of associate increased significantly in 2023 as there was a significant impairment loss made on certain receivables of the associate in 2023.

# MANAGEMENT DISCUSSION AND ANALYSIS

Zhongcheng mainly engaged in the provision of financial services, property development and management and commodity trading business in the PRC. In view of the sluggish PRC domestic economic growth, the industry downturn and the PRC economic recovery after the epidemic was not optimistic, during the year ended 31 December 2023, Zhongcheng's operation and business was significantly impacted and its revenue was decreased from RMB1,737.7 million to RMB729.7 million. Further, the loss of the associate was significantly increased from RMB20.0 million to RMB474.8 million, which is mainly attributable to: (i) the significant decrease in the performance from the business and operation of Zhongcheng; (ii) the impairment provision for account and other receivables of RMB393.5 million was made during the year. Accordingly, the result of share of losses of the associate attributable to the Company was increased from RMB9.8 million to RMB232.7 million.

During the year ended 31 December 2023, the Group transferred its 49% equity interest in Zhongcheng to one of the shareholders of Zhongcheng (the "Trustee") (the "Share Transfer") under a share transfer agreement with the Trustee date 27 November 2023 (the "Share Transfer Agreement"). However, pursuant to the trusting documents entered into between the Trustee and the Group, the Trustee holds 49% equity interest in Zhongcheng on behalf of the Group (the "Trusting Arrangement"). With the consultation of the Company's legal counselor, under the Trusting Arrangement, the Group is the beneficial owner of 49% equity interest in Zhongcheng and further, the Trustee is not obliged to and has no obligation to pay the consideration relating to the transfer of 49% equity interest in Zhongcheng to the Trustee under the Share Transfer Agreement. The directors of the Company consider that the Share Transfer is merely an arrangement for business purpose and the Group in fact did not dispose any equity interest in Zhongcheng to the Trustee.

In such circumstances, the directors of the Company are of view that the Group is the beneficial owner in 49% equity interest in Zhongcheng, the Group has the power and rights to participate the policy-making process and has significant influence over Zhongcheng. Accordingly, the directors of the Company still consider to account for its investment in the Zhongcheng as an associate of the Group as the directors assessed that there is significant influence because the Group has the power and rights to participate in the financial and operating policy decisions of the Zhongcheng in accordance with Hong Kong Accounting Standard 28 (2011) "*Investment in Associates and Joint Ventures*".

**Change in fair value of investment properties**

The Group's investment properties are situated in the PRC and are held under the lease term from 40 to 50 years. As at 31 December 2023, the carrying amount of investment properties represents the shopping mall of Differ One City (鼎豐壹城) project and investment properties include parts of Chu Zhou Fu Cheng (處州府城) project, which are held for capital investment or held to earn rentals. The fair value loss on the Group's investment properties of approximately RMB155.2 million (2022: gain RMB14.4 million) in 2023 are based on valuations of such properties conducted by independent property valuers, using property valuation techniques involving certain assumptions of market conditions. The recognition of fair value loss of investment properties mainly attributable to the severe downward adjustment of the property market in PRC during the year.

**Reversal of (impairment loss) on financial assets**

As at 31 December 2023, the Group has the following material financial assets:

| | *Notes* | **2023** **RMB'000** | 2022 RMB'000 |
|---|---|---|---|
| **Finance lease, loan and account receivables** | | | |
| Finance lease receivables | (a) | **12,587** | 82,167 |
| Loan receivables | (b) | **—** | 246,093 |
| Receivables from guarantee customers | (c) | **—** | 10,864 |
| Account receivables | (d) | **87,160** | 101,664 |
| | | **99,747** | 440,788 |
| **Deposits and other receivables** | | | |
| Consideration receivables | | **862,283** | 1,262,693 |
| Amount due from an associate | | **822,429** | 588,683 |
| Other receivables | (e) | **247,215** | 76,186 |
| Prepaid expenses | | **12,989** | 28,225 |
| Other deposits paid | | **6,040** | 74,306 |
| | | **1,950,956** | 2,030,093 |
| Less: Impairments | | **(1,223,827)** | (26,953) |
| | | **727,129** | 2,003,140 |

Further details of the Group's finance lease, loan and account receivables are set out in note 19 to the financial statements of this report.

*Note:*

**(a) Finance lease receivables**

| | **2023** **RMB'000** | 2022 RMB'000 |
|---|---|---|
| Finance lease receivables | **91,556** | 86,945 |
| Less: Impairments | **(78,969)** | (4,778) |
| | **12,587** | 82,167 |

**(b) Loan receivables**

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | *RMB'000* |
| Loan receivables | **650,455** | 251,106 |
| Less: Impairments | **(650,455)** | (5,013) |
| | **—** | 246,093 |

During the year, the Group granted 3 new unsecured loans to certain borrowers in which the aggregate net loan balances increased by RMB414,551,000 ("Loan Receivables"). The below sets out details of the increase in net balances of the total unsecured loans granted by the Group during the year:

| | **Customer** | **Amount** | **Reason of granting loans at that material time** | **Whether it is carried out as part of the ordinary course of business** |
|---|---|---|---|---|
| (i) | Party A* | RMB4,437,765 | Corporate borrowings | Yes |
| (ii) | Party B | RMB10,112,900 | Corporate borrowings | Yes |
| (iii) | Party C *(Note 1)* | RMB400,000,000 | Special Loan | Yes |

* Party A is a customer under financial related services business of the Group and also a supplier under the automobile e-commerce business of the Group.

*Notes:*

1. The Group has granted the special loan (the "Special Loan") to Party C because the Group is considering to acquire the assets of Party C (the "Target Assets"), which mainly holds certain land use rights and property, plant and equipment pursuant to the 合作框架協議. If the Group eventually determined to acquire the Target Assets, the principal and the relevant interests of the Special Loan will be used to set off with the consideration to be paid by the Group. On the contrary, if the Group eventually determined not to acquire the Target Assets, the principal and the relevant interests will be repaid by Party C at the then material time pursuant to the 合作框架協議. To secure the repayment of the Special Loan, the shareholder of Party C shall charge its shareholdings of Party C to the Group as collateral for the Special Loan but the shareholder of Party C has failed to do so. The maturity date of the Special Loan will be on 2 July 2024 (18 months from the date of 合作框架協議, 3 January 2023).

   For the year ended 31 December 2023, since Party C has not yet repaid any portion of the principal and interest of the Special Loan to the Group and the shareholder of Party C failed to charge its shareholdings of Party C to the Group as collateral for the Special Loan, the directors of the Company have taken certain alternatives to recover the Loan Receivables from Party C, such as to take legal claim and litigation actions against them to recover for the outstanding amount of the Special Loan and request the charge of the shareholdings of Party C to the Group as collateral for the Special Loan. As at the date of this report, the Group still has not received any responses from Party C and its shareholder.

In this circumstance, the directors of the Company consider that it is uncertain and the possibility is low in recovering the outstanding Loan Receivables from Party C in the near future. It is more prudence and conservative and thus, the Group recognised full impairment of the Loan Receivables from Party C.

2. The directors of the Company have taken certain alternatives to recover the Loan Receivables from these customers, borrowers and counterparties, such as to take legal claim and litigation actions against them.

   In the circumstance of default in settlement, the directors of the Company consider that it is uncertain and the possibility is low in recovering the outstanding Loan Receivables from the customers, borrowers and counterparties in the near future. It is more prudence and conservative and thus, the Group recognised full impairment of the Loan Receivables.

**(c) Receivables from guarantee customers**

| | **2023**<br>**RMB'000** | 2022<br>RMB'000 |
|---|---|---|
| Receivables from guarantee customers | **29,450** | 29,661 |
| Less: Impairments | **(29,450)** | (18,797) |
| | **—** | 10,864 |

**(d) Account receivables**

| | **2023**<br>**RMB'000** | 2022<br>RMB'000 |
|---|---|---|
| Housing vouchers (房票) regarding the proceeds receivable from assets management | **79,352** | — |
| Proceeds receivables from assets management | **80,037** | 74,345 |
| Interest receivables from finance lease receivables and loan receivables | **77,213** | 29,612 |
| Rental income receivables | **1,559** | 1,559 |
| | **238,161** | 105,516 |
| Less: Impairments | **(151,001)** | (3,852) |
| | **87,160** | 101,664 |

The below sets out details of the default in settlement of the account receivables from certain customers, borrowers and counterparties of approximately RMB142,550,000:

| | Customer | Amount | Reason of granting loans at that material time | Whether it is carried out as part of the ordinary course of business |
|---|---|---|---|---|
| (i) | Party D | RMB5,621,180 | Interest of Loan (interest bearing at 25% per annum) | Yes |
| (ii) | Party E | RMB63,500,000 | Sales of property | Yes |
| (iii) | Party F *(Note 1)* | RMB1,559,232 | Rental income | Yes |
| (iv) | Party G | RMB48,000,000 | Interest of loan (interest bearing at 12% per annum) | Yes |
| (v) | Party C## | RMB23,592,329 | Interest of the Special Loan (interest bearing at 7.8% per annum) | Yes |
| (vi) | Party H## | RMB276,900 | Others | |

## As described in "Doubtful Loan and Account Receivables" in note 19 to the financial statements in this report.

*Notes:*

1. It was rental income receivables over-provided in prior year.

2. The directors of the Company have taken certain alternatives to recover the Doubtful Account Receivables from these customers, borrowers and counterparties, such as to take legal claim and litigation actions against them.

   In the circumstance of default in settlement, the directors of the Company consider that it is uncertain and the possibility is low in recovering the outstanding Doubtful Account Receivables from the customers, borrowers and counterparties in the near future. It is more prudence and conservative and thus, the Group recognised full impairment of the Doubtful Account Receivables.

**(e) Other receivables**

Further details of the Group's other receivables are set out in note 21 to the financial statements of this report.

During the year ended 31 December 2023, the Doubtful Other Receivables as defined in note 21 to the financial statements of this report by the Group was in an aggregate amount of approximately RMB129,687,000.

The below sets out the details of the Doubtful Other Receivables:

| | Counterparties | Relationship | Amount | Reason of granting loans of that material time | Whether it is carried out as part of the ordinary course of business |
|---|---|---|---|---|---|
| (i) | Party I | Customer | RMB2,567,512 | Loan for daily operations | Yes |
| (ii) | Party J | Supplier | RMB3,900,000 | Prepayments | Yes |
| (iii) | Party K | Supplier | RMB5,941,906 | Prepayments | Yes |
| (iv) | Party L | Supplier | RMB45,415,120 | Prepayments | Yes |
| (v) | Party M | Supplier | RMB3,406,152 | Prepayments | Yes |
| (vi) | Party A* | Customer and Supplier | RMB50,000,000 | Prepayments | Yes |
| (vii) | Party N | Supplier | RMB3,650,000 | Prepayments | Yes |
| (viii) | Party O | Supplier | RMB14,805,840 | Prepayments | Yes |

* Party A is a customer under financial related services business of the Group and also a supplier under the automobile e-commerce business of the Group.

*Notes:*

1. The directors of the Company have taken certain alternatives to recover the Doubtful Other Receivables from these customers, borrowers and counterparties, such as to take legal claim and litigation actions against them.

   In the circumstance of default in settlement, the directors of the Company consider that it is uncertain and the possibility is low in recovering the outstanding Doubtful Other Receivables from the customers, borrowers and counterparties in the near future. It is more prudence and conservative and thus, the Group recognised full impairment of the Doubtful Other Receivables.

***Impairment of financial assets and other items subject to impairment assessment under HKFRS 9***

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including finance lease, loan and account receivables, deposits and other receivables, amounts due from associates and related companies, restricted bank deposits and bank balances) and other items (financial guarantee contracts) which are subject to impairment assessment under HKFRS 9 Financial Instruments. 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 without significant financing component.

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.

There are following three stages related to the ECL impairment assessment performed by the Group:

| Category | Basis for recognising ECL | Description |
|---|---|---|
| Stage 1 | 12-month ECL | The counterparty has a low risk of default and a strong capacity to meet contractual cash flows. |
| Stage 2 | Life time ECL — not credit-impaired | Receivables are 30 days past due or there has been a significant increase in credit risk since initial recognition. |
| Stage 3 | Lifetime ECL — credit-impaired | Receivables are 90 days past due or there is evidence indicating the assets is credit-impaired. |

The following table provides information about the Group's exposure to credit risk and ECL for finance lease, loan and account receivables, amount due from an associate, other receivables and consideration receivables as at 31 December 2023:

| | *Notes* | Category | Average expected loss rate % | Balance as at 31 December 2023 Gross carrying amount RMB'000 | Balance as at 31 December 2023 Loss allowance RMB'000 | Year ended 31 December 2023 Impairment loss recognised RMB'000 | Year ended 31 December 2023 Reversal of impairment loss recognised RMB'000 |
|---|---|---|---|---|---|---|---|
| ***Finance lease, loan and account receivables*** | | | | | | | |
| Account receivables | (a) | 12-month ECL | **8.8** | **95,611** | **(8,451)** | **(8,069)** | **—** |
| | | Lifetime ECL (not credit-impaired) | **N/A** | **—** | **—** | **—** | **232** |
| | (a) and (b) | Lifetime ECL (credit-impaired) | **100.0** | **142,550** | **(142,550)** | **(139,312)** | **—** |
| | | | | **238,161** | **(151,001)** | **(147,381)** | **232** |
| Finance lease receivables | | 12-month ECL | **N/A** | **—** | **—** | **—** | **—** |
| | | Lifetime ECL (not credit-impaired) | **N/A** | **—** | **—** | **—** | **7** |
| | (a) and (b) | Lifetime ECL (credit-impaired) | **86.3** | **91,556** | **(78,969)** | **(75,499)** | **1,301** |
| | | | | **91,556** | **(78,969)** | **(75,499)** | **1,308** |
| Receivables from guarantee customers | | 12-month ECL | **N/A** | **—** | **—** | **—** | **—** |
| | | Lifetime ECL (not credit-impaired) | **N/A** | **—** | **—** | **—** | **—** |
| | (a) and (b) | Lifetime ECL (credit-impaired) | **100.0** | **29,450** | **(29,450)** | **(10,653)** | **—** |
| | | | | **29,450** | **(29,450)** | **(10,653)** | **—** |
| Loan receivables | | 12-month ECL | **N/A** | **—** | **—** | **—** | **42** |
| | | Lifetime ECL (not credit-impaired) | **N/A** | **—** | **—** | **—** | **—** |
| | (a) and (b) | Lifetime ECL (credit-impaired) | **100.0** | **650,455** | **(650,455)** | **(645,484)** | **—** |
| | | | | **650,455** | **(650,455)** | **(645,484)** | **42** |
| ***Other receivables*** | | | | | | | |
| Amount due from an associate | | 12-month ECL | **N/A** | **—** | **—** | **—** | **—** |
| | (a) | Lifetime ECL (not credit-impaired) | **21.5** | **822,429** | **(176,535)** | **(163,285)** | **—** |
| | | Lifetime ECL (credit-impaired) | **N/A** | **—** | **—** | **—** | **—** |
| | | | | **822,429** | **(176,535)** | **(163,285)** | **—** |
| Other receivables | (a) | 12-month ECL | **8.8** | **68,237** | **(6,033)** | **(6,033)** | **—** |
| | | Lifetime ECL (not credit-impaired) | **N/A** | **—** | **—** | **—** | **—** |
| | (a) and (b) | Lifetime ECL (credit-impaired) | **100.0** | **178,978** | **(178,976)** | **(178,949)** | **—** |
| | | | | **247,215** | **(185,009)** | **(184,982)** | **—** |
| Consideration receivables | | 12-month ECL | **N/A** | **—** | **—** | **—** | **—** |
| | | Lifetime ECL (not credit-impaired) | **N/A** | **—** | **—** | **—** | **—** |
| | (a) and (b) | Lifetime ECL (credit-impaired) | **100.0** | **862,283** | **(862,283)** | **(848,607)** | **—** |
| | | | | **862,283** | **(862,283)** | **(848,607)** | **—** |
| | | | | **2,941,549** | **(2,133,702)** | **(2,075,891)** | **1,582** |

*Notes:*

(a) The expected loss rates are derived from the gross carrying amounts and loss allowances as at 31 December 2023 after taken into account of the collaterals, historical default rate and forward-looking information when determined the loss allowances in accordance with the Company's accounting policy.

The Group engaged APAC Appraisal and Consulting Limited (the "Valuer"), which is an external, independent, and qualified valuer to determine the expected credit loss of the Group's receivables. The Valuer comprises a team of professional individuals, who are members of various professional bodies (or charter holders of their programs), such as CFA Institute (CFA Charter), GARP (FRM), International Association of Certified Valuation Specialists (ICVS) and the Royal Institution of Chartered Surveyors (RICS). The past work of the Valuer covered a wide variety of industries, including but not limited to pharmaceutical products and medical services, mining and exploration, power generation, banking and finance, information technology and telecommunication.

Given that the nature of the receivables, the Valuer has adopted general approach to perform the valuation. The probability-weighted loss default ("PLD") model is adopted in the ECL valuation. The PLD model is considered to be the standard ECL formula which is straightforward and commonly applied methodology of general approach.

There is no subsequent change in the valuation approach and methodology from that previously adopted as the receivables was initially incurred in the Year.

The PLD model involves the following five key parameters (i.e. inputs):

(i) Probability of default ("PD");

(ii) K-factor ("K");

(iii) Loss given default ("LGD");

(iv) Exposure at default ("EAD"); and

(v) Discount factor ("DF").

In this model, the total ECL is derived by summing up the ECL of all the expected default events within a specific period. The total ECL for each possible event is calculated as the product of the five parameters above, through the formula shown below:

$ECL = PD \times K \times LGD \times EAD \times DF$

Where:

PD: The calculation of the adopted probability of default was reference to "Moody's Annual default study" provided by Moody's Investors Service. The probability of default rate adopted for the ECL assessment as at the valuation date ranged from 8.97% to 100%.

K: The K-factor was defined as a forward-looking adjustment factor derived, it was determined by the historical default rate was reference to the Moody's publication of global default rates, and the historical and forecast the macroeconomic factors of China with reference to "International Monetary Fund, World Economic Outlook Database, 2023" through regression model.

LGD: The Loss given default was calculated as (1 − expected recovery rate). Per discussion with management, the expected recovery rate was assumed to be 0% as the financial information of the counterparties were not available, and the Company considered that the recovery of outstanding receivables to be not likely as at the valuation date.

EAD: The exposure at default is the difference between the fair value of collaterals (if any) and the outstanding balance of the receivables.

DF: The discount factor was defined as the factor that needs to be multiplied in order to convert future cash flows into the present value at the measurement date. The discount factor adopted for the ECL assessment as at the valuation date ranged from 0.93 to 1.

**Assumptions:**

In the course of the valuation, a number of specific assumptions and caveats have been made. The Valuer has based on the following to arrive at our valuation conclusion.

- It is assumed that none of the subject receivables are credit impaired on initial recognition.
- The stage classification of the receivables was conducted in accordance with HKFRS 9 based on management's assessment of the conditions of the receivables as at the valuation Date.
- As the financial information of the counterparties is not readily available, a complete credit assessment of the receivables was not possible. Per advice from the management, it is assumed that the corporate credit rating of the counterparties is CCC/C as individual financial information is not available.
- The PDs adopted in our analysis are sourced from "Moody's Annual default study" provided by Moody's Investors Service, on the assumption that there is no material difference between the expected default rates of the receivables and the historical default rates of the all-rated corporate debts as at the valuation date.
- There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation.
- There will be no major changes in the current taxation law in the areas in which the Company conducting their business, that the rate of tax payable remains unchanged and there all applicable laws and regulations will be complied with.
- The inflation, interest rates and currency exchange rate will not differ materially from those presently prevailing.
- There will be no major business disruptions through international crisis, diseases, industrial disputes, industrial accidents or severe weather conditions that will affect the existing businesses.
- The Company will remain free from claims and litigation (except for legitimate claims resulting from the subject receivables) against the business or their customers that will have a material impact on value.
- The businesses are unaffected by any statutory notice and that operation of the businesses give, or will give, no rise to a contravention of any statutory requirements.
- The businesses are not subject to any unusual or onerous restrictions or encumbrances.

Discussion of the valuation process and results had been held between management and the valuer in respect of the valuation as at the reporting date.

Based on the impairment assessment conducted by the directors of the Company, the Group had impairment loss and reversal of impairment loss recognised amounted to approximately RMB2,075,891,000 and RMB1,582,000 which were charged or credited to the profit or loss for the year ended 31 December 2023, respectively.

(b) Despite the exerted efforts of the directors of the Company to request the customers, borrowers and counterparties in settling the outstanding balances due to them on time, however, up to the date of the approval for issuance of the consolidated financial statements, these customers, borrowers and counterparties did not settle their outstanding balances in accordance with the terms of the relevant contracts and agreements. The directors of the Company have taken certain alternatives to recover the receivables from these customers, borrowers and counterparties, such as to take legal actions against them. In the circumstance of default in settlement, the directors of the Company considered that there is evidence indicating that such outstanding balances amounted to approximately RMB1,955,272,000 are credit-impaired. Taking into account the status of collaterals, the deposits received from financial lease customers and the low possibility to recover the receivables from these customers, borrowers and counterparties and hence, the Group recognised full impairment of such outstanding balances with them amounted to approximately RMB1,898,504,000 which was charged to profit or loss for the year ended 31 December 2023.

The directors of the Company consider that the information used in its impairment assessment represented the best available estimates from the information available.

## PROVISION ON FINANCIAL GUARANTEE

### Financial guarantees given to banks and other counterparties granted to certain customers

As at 31 December 2023, the Group had given financial guarantees to banks for banking facilities granted to certain customers of the Group with maximum amount of approximately RMB307,516,000 (2022: RMB453,011,000).

As at 31 December 2023, among the financial guarantee amount, approximately RMB307,516,000 (2022: RMB273,468,000) is related to certain customers of the Company with their debts are default in payment. Such guarantees are secured by (i) properties held by certain customers with amount of RMB128,800,000 (2022: RMB135,400,000); (ii) investment properties with carrying amount of RMB80,200,000 held by the associate (2022: RMB95,409,000 held by the Group); (iii) corporate guarantee provided by the Company and (iv) personal guarantee and corporate guarantee provided by Mr. Hong and Ms. Shi Hongjiao ("Ms. Shi") and (v) corporate guarantee provided by independent third parties. Mr. Hong is the sole shareholder of Expert Corporate Limited, the substantial shareholder of the Company, and Ms. Shi is the wife of Mr. Hong.

In the event of failure to repay the outstanding balance, the creditor has the right to proceed the sale of pledged properties held by certain customers under the banking facilities. The directors, with reference to the legal opinion from a PRC lawyer, considered that it is highly probably the creditors will demand the Company and the Group for the shortfall of the default amount after taken into consideration of the value of the pledged properties held by certain customers.

Accordingly, the remaining outstanding amount of RMB98,516,000 (2022: RMB138,068,000) are recognised as financial guarantee liabilities ("Provision") as at 31 December 2023, which was the directors' best estimate on the probable cash outflow on the obligation of these financial guarantee contracts.

As at 31 December 2023, all the financial guarantees granted to customers are default in payment and financial guarantee liabilities are recognised as mentioned above.

The details of the financial guarantee are set out in note 30 to the financial statements of this report.

The Provision is supported by a valuation report performed by independent professional valuers. Details of the valuation, including the valuation method and the relevant input/assumptions are set out below:

***Valuation Methodology***

The valuation of the financial guarantees has been conducted in accordance with HKFRS 9. The measurement of the Financial Guarantees are determined as the higher of:

1. The HKFRS 9 Expected Credit Loss ("ECL") allowance, and

2. The amount initially recognised less any cumulative amount of income/amortisation recognised.

The valuers conducted an assessment of the credit rating of the Defaulting Customers. The measurement of corporate guarantees are derived as their ECL allowances, which are calculated as the exposure at default ("EAD") of the underlying loan payables, multiplied by probability of default ("PD") and loss given default ("LGD").

Based on the assessed ratings, the valuers determined the appropriate PD based on the financial and operation conditions of the underlying Borrowers. In determining the EAD, the exposure of the guarantor to the loan payable is calculated by the outstanding balance of the loan minus guarantee deposit and the collateral value (if any). The LGD of the underlying loans was considered 100% as the financial information of the Borrowers were not available, and the Company considered that the Borrowers are not likely to be able to make repayment for the underlying loans under the relevant guarantees from a prudent perspective.

***Assumptions***

In the course of the valuation, a number of specific assumptions and caveats have been made. The valuers have based on the following to arrive at their valuation conclusion.

— The credit rating assessment of the Borrowers are partly based on several assumed figures including depreciation, Capex, net cash generated from operating activities and interest expenses. As the financial information of the Borrowers is not readily available, a complete credit assessment was not possible. Per advice from the management, all the Borrowers are defaulted and default rate of 100% was adopted in the assessment.

— Time to maturity of the corporate guarantees represents the period from valuation date to expiry date of the loan contracts.

— There will be no major changes in existing political, legal, fiscal or economic conditions in the country or district where the business is in operation.

— There will be no major changes in the current taxation law in the areas in which the company conducting their business, that the rate of tax payable remains unchanged and that all applicable laws and regulations will be complied with.

— The inflation, interest rates and currency exchange rate will not differ materially from those presently prevailing.

— There will be no major business disruptions through international crisis, diseases, industrial disputes, industrial accidents or severe weather conditions that will affect the existing businesses.

— The Borrowers and the guarantor will remain free from claims and litigation (except for legitimate claims resulting from the subject loan contracts and the Financial Guarantees) against the business or their customers that will have a material impact on the valuation result.

— The businesses are unaffected by any statutory notice and that operation of the businesses give, or will give, no rise to a contravention of any statutory requirements.

— The businesses are not subject to any unusual or onerous restrictions or encumbrances.

**Loss for the year attributable to the owners of the Company**

Our Group's loss for the year attributable to the owners of the Company was approximately RMB2,522.3 million in 2023, representing an increase in loss of approximately RMB2,342.1 million, from net loss of approximately RMB180.2 million in 2022.

## SIGNIFICANT INVESTMENT, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 25 December 2023, the Group entered into a sale and purchase agreement with associates to dispose (the "Disposal") 100% equity interest in Xiamen Lun Hui Trading Company Limited ("Xiamen Lun Hui") at consideration of RMB2,000,000. The Group acquired Xiamen Lun Hui on 2 May 2018. The principal business of Xiamen Lun Hui is engaged in property holding business in the PRC. The Group recognised a loss on disposal of Xiamen Lun Hui amounted to approximately RMB47,223,000 which was charged to profit or loss for the year.

Pursuant to the judgment by the Higher Court of Fujian Province, Xiamen Lun Hui is liable to repay the loan (i) owed by Shishi Fu Rong Trading Company Limited* (石獅富融商貿有限公司) to China Citic Bank, Quanzhou Branch (the "Bank"), in the principal amount of RMB69,000,000 and the corresponding interests and penalty, as well as (ii) owed by Fujian Jing Fu Huei Textile Technology Company Limited* (福建京福輝紡織科技有限公司) to the Bank, in the principal amount of RMB29,000,000 and the corresponding interests and penalty. As Xiamen Lun Hui, as guarantor, has pledged its properties to the Bank which has right to sell or auction Xiamen Lun Hui's assets to repay the debts. The Group realised the Bank has disposed its rights under the said borrowings to a PRC asset management company, China Cinda Asset Management Co., Ltd, Fujian Branch* (中國信達資產管理股份有限公司福建省分公司) (the "AM Co.") in late September 2022. In the event of failure to repay the outstanding balances, the creditors have the right to proceed the sale of pledged properties under the banking facilities. Further, Xiamen Dongfang Zhidao Cultural Technology Co., Ltd.* (廈門東方智道文化科技有限公司) has also filed a claim against Xiamen Lun Hui claiming for approximately RMB6,030,000 (the "Claim").

The Group notice, apart from the pledged properties, which will be enforced by the Bank, with the carrying amount of RMB80.2 million as at the date of the Disposal, there were prepayment, deposits and other receivables of approximately RMB43,000 and cash and bank balance of approximately RMB7,000 recorded in the book of Xiamen Lun Hui. The Group consider with the enforcement, the prospect for Xiamen Lun Hui to recover will be minimal and the cost for keeping Xiamen Lun Hui might not be worthwhile.

At that material time, the associate is the only potential purchaser which showed its interest to acquire Xiamen Lun Hui. The Directors believe and consider that based on the economic environment, the fund to be generated by the Disposal and considering the Claim as mentioned above, assuming no further resources could be allocated, would provide a good opportunity for the Group to dispose the equity interest of Xiamen Lun Hui so as to release funds which will be used as general working capital of the Group would be a better option for the Group. The Board is of the view that the disposal is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As all the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the disposal of Xiamen Lun Hui are below 5%, the disposal of Xiamen Lun Hui did not constitute a notifiable transaction under Chapter 14 of the Listing Rules.

Furthermore, the associates, are associate company of the Group, which is not a connected person and therefore the disposal of Xiamen Lun Hui did not constitute a connected transaction under Chapter 14A of the Listing Rules as well.

Further, pursuant to the Company's announcement dated 13 October 2023, the Group reconsolidated the entire equity interest in Xiamen Differ Group through the set-off of the consolidation receivables of approximately RMB313,000,000.

Saved as disclosed above, there was no significant investment and material acquisition or disposal of subsidiaries and affiliated companies in 2023.

**DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES**

The following information is disclosed in accordance with Chapter 13 of the Listing Rules.

On 12 November 2020, China Overseas Urban Development Co., Ltd* (中海外城市開發有限公司) (as the purchaser), entered into the reorganisation agreement ("Reorganisation Agreement") with the Group to acquire 51% of the entire issued share capital of the Zhongcheng City Development Group Co., Limited ("Zhongcheng") 中城城開集團有限公司, Zhongcheng became the 49% associate of the Company on 31 December 2020.

Pursuant to the Reorganisation Agreement, the Group agreed to provide financial assistance to Zhongcheng and its subsidiaries ("Zhongcheng Group") with a cap of RMB750,000,000. As at 31 December 2023, the net outstanding principal amount was approximately RMB645,894,000.

The principal terms of the financial assistance are as follows:

| | |
|---|---|
| Loan cap: | Up to RMB750 million |
| Interest rate: | Interest-free for 2021 and 10% per annum from 1 January 2022 until full repayment |
| Loan period: | No fixed repayment date |

A condensed consolidated statement of financial position of the Zhongcheng Group as at 31 December 2023 is set out below:

| | RMB'000 |
|---|---|
| Current assets | 1,308,304 |
| Non-current assets | 168,712 |
| Current liabilities | (1,205,796) |
| Non-current liabilities | (10,583) |
| Net assets | 260,637 |

As at 31 December 2023, the Group's attributable interest in the Zhongcheng Group amounted to approximately RMB127,712,000.

**OUTLOOK**

Uncertainties in the PRC's economic growth and geopolitical environment continue to have a negative impact on the post-pandemic recovery of the PRC in the short run. China's real estate industry was affected significantly under the pressure of shrinking demand, supply chain disruption and weakened expectations.

Therefore, the Group will continue to ensure stable operation of its existing business lines, mainly including real estate projects in the asset management business. The Group will continue to adopt a prudent approach to the asset management business, by closely monitoring the rapidly changing environment of the Chinese property market, seizing various opportunities to transact for valuable assets at a suitable time and ensuring steady income streams to generate satisfactory returns for shareholders.

The Company is facing the winding up petition filed by its creditors. In such circumstance, a restructuring adviser has been engaged by the Company in preparing a liquidation analysis of the Company and assisting the directors of the Company to formulating a viable restructuring plan with the detailed terms thereof. The winding up proceedings remain in process at the High Court of Hong Kong, while the Company has applied to the High Court of Hong Kong for a proposed scheme of arrangement to be entered into between the Company and certain creditors of the scheme.

On 6 June 2024, the High Court has granted an order to the Company to convene a meeting of the creditors of the Company for the Scheme. Such creditors' meeting is tentatively scheduled to be held on 16 August 2024 and the sanction hearing of the High Court for the Scheme is tentatively fixed on 17 September 2024.

## CONTINGENT LIABILITIES

As at 31 December 2023 and 2022, saved as those disclosed elsewhere in this report, the Group did not have any significant contingent liabilities.

## COMMITMENT

As at 31 December 2023, the Group had capital commitments, which were contracted but not provided for, in respect of the capital injection to its subsidiaries of RMB1,078,077,000 (2022: RMB1,128,536,000).

As at 31 December 2023, the Group had capital commitment, which were contracted but not provided for, in respect of the capital injection to an associate of RMB195,000,000 (2022: RMB196,000,000).

At the reporting date, the Group had the following capital and other commitments:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| *Contracted, but not provided for* | | |
| Property development | **261,469** | 181,449 |
| Property, plant and equipment | **—** | 202,157 |
| | **261,469** | 383,606 |

As at 31 December 2023 and 2022, saved as those disclosed elsewhere in this report, the Group did not have any significant commitment.

## FOREIGN EXCHANGE RISK MANAGEMENT

The exposure to currency exchange rate of the Group is minimal as majority of the Group's subsidiaries operates in the PRC with most of the transaction denominated and settled in RMB. Part of the Group's borrowings and corporate bonds are denominated in the currencies other than RMB. Such currencies are HK$ and United States dollars and their RMB equivalent amounts are approximately RMB664.9 million and RMB313.4 million as at 31 December 2023 respectively. The Group has not entered into any foreign exchange hedging arrangement. The Directors consider that exchange rate fluctuation has no significant impact on our Group's financial performance.

## TREASURY POLICIES

The Group continuously monitors the current and expected liquidity requirements of the Group as well as the cash and receivables in order to ensure to maintain sufficient liquidity to meet the liquidity requirements of the Group. In particular, the Group monitor the ageing of the loan and account receivables as well as the maturity profile of the corporate bonds and bank and other borrowings of the Group.

## FINAL DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: Nil).

## EVENT AFTER THE REPORTING DATE

Saved as disclosed elsewhere in this report, there is no significant event identified by the Directors subsequent to the report period.

## HUMAN RESOURCES

As at 31 December 2023, the Group had a total of 197 employees (2022: 336). The staff costs (included Directors' emoluments) were approximately RMB39.4 million for the year ended 31 December 2023 (2022: RMB66.6 million). The remuneration package of the employees is determined by various factors such as their working experience and job performance, the market condition, industry practice and applicable employment law.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of employees' salaries to the central pension scheme. The Group also maintains the Mandatory Provident Fund ("MPF") Scheme and insurance for its employees in Hong Kong. Contributions to the MPF Scheme are in accordance with the statutory limits prescribed by the MPF ordinance. The Group had no forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Saved for those disclosed in this annual report, there was no specific plan for material investments or capital assets as at 31 December 2023 (2022: Nil).

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2023, the Group had total cash and bank balances and current restricted bank deposits of approximately RMB137.5 million (2022: RMB168.9 million). The gearing ratio, calculated as percentage of total borrowings to the total assets of the Group was 37.5% as at 31 December 2023 (2022: 16.4%). The current ratio is 0.82 times as at 31 December 2023 (2022: 1.02 times). The Group did not use any financial instruments for hedging purpose.

**During the year ended 31 December 2023, the movements of the share capital of the Company are as following:**

**(i) 2023 First Placing of shares**

On 17 April 2023, pursuant to a placing agreement, the Company agreed to place up to an aggregate of 1,441,677,576 ordinary shares of the Company to not less than six placees who and whose beneficial owners are independent third parties at the placing price of HK$0.140 per placing share ("2023 First Placing").

The placing price represented a discount of approximately 6.67% to the closing price of HK$0.15 per share as quoted on the Stock Exchange on the date of the placing agreement. A total of 1,407,132,000 placing shares have been successfully placed to not less than six placees and 2023 First Placing was completed on 9 May 2023. The 1,407,132,000 placing Shares represented (i) approximately 19.52% of the issued share capital of the Company immediately before the completion of 2023 First Placing; and (ii) approximately 16.33% of the issued share capital of the Company as enlarged by the allotment and issue of all the placing Shares.

The gross proceeds from 2023 First Placing were approximately HK$197 million.

The net proceeds of approximately HK$190.7 million (after deduction of commission and other expenses of the placing) from the placing, representing a net issue price of approximately HK$0.136 per placing share, were intended to be applied in the manner as follows: (i) approximately HK$100.0 million shall be used for repayment of the outstanding indebtedness; and (ii) approximately HK$90.7 million shall be used for general working capital of the Group.

As at 31 December 2023, the utilised net proceeds from the 2023 First Placing was approximately HK$190.9 million including HK$104 million used for repayment of the outstanding indebtedness and HK$86.9 million used for general working capital of the Group.

Details of the 2023 First Placing are set out in the Company's announcements dated 17 April 2023, 28 April 2023 and 9 May 2023.

**(ii) 2023 Second Placing of shares**

On 28 September 2023, pursuant to a placing agreement, the Company agreed to place up to an aggregate of 1,723,103,976 ordinary shares of the Company to not less than six placees who and whose beneficial owners are independent third parties at the placing price of HK$0.055 per placing share ("2023 Second Placing").

The placing price represented a discount of approximately 16.7% to the closing price of HK$0.066 per share as quoted on the Stock Exchange on the date of the placing agreement. A total of 363,620,000 placing shares have been successfully placed to not less than six placees and 2023 Second Placing was completed on 11 October 2023. The 363,620,000 placing Shares represented (i) approximately 4.22% of the issued share capital of the Company immediately before the completion of the placing and (ii) approximately 4.05% of the issued share capital of the Company as enlarged by the allotment and issue of the placing shares immediately upon completion of 2023 Second Placing.

The gross proceeds from 2023 Second Placing were approximately HK$20 million.

The net proceeds of approximately HK$19.4 million (after deducting the placing commission and other related expenses incurred in relation to the placing), representing a net issue price of approximately HK$0.0533 per placing share, which are intended to be used of approximately HK$8.0 million for general working capital of the Group and (ii) approximately HK$11.4 million for the costs of the implementation of the restructuring plan of the Company.

As at 31 December 2023, the utilised net proceeds from 2023 Second Placing was approximately HK$10.3 million including HK$4.0 million used for general working capital of the Group and HK$6.3 million used for the costs of the implementation of the restructuring plan of the Company.

The unutilised net proceeds up to 31 December 2023 of HK$4 million and HK$5.1 million would be used in the first half of 2024 for general working capital of the Group and the costs of the implementation of the restructuring plan of the Company respectively.

Details of the 2023 Second Placing are set out in the Company's announcements dated 28 September 2023 and 11 October 2023.

The Board consider that these placing represents a good opportunity for the Company to raise additional funds for the operating expenses of the Group and to strengthen the Group's financial position, while broadening the capital base of the Company so as to maintain a healthy working capital position for alleviating the Group's liquidity pressure. The placing will also broaden the Company's shareholder base with an aim of improving the liquidity of the Shares.

Subsequent to 31 December 2023 and up to the date of the approval for issuances of the consolidated financial statements, the movements of the share capital of the Company are as followings:

(a) Capital Reorganisation, comprised the Share Consolidation and Increase in Authorised Share Capital as described below:

**(i) Share Consolidation**

Pursuant to the Company's announcement dated 19 December 2023, the Company implemented the share consolidation (the "Share Consolidation") on the basis that every ten (10) existing shares (the "Existing Shares") of par value of HK$0.0025 each would be consolidated into one (1) consolidated share (the "Consolidated Share") of HK$0.025 each.

On 19 December 2023, the authorised share capital of the Company was HK$50,000,000 divided into 20,000,000,000 Existing Shares of par value of HK$0.0025 each, of which 8,979,139,880 Existing Shares have been issued and were fully paid or credited as fully paid.

The Share Consolidation was approved by the shareholders of the Company at the extraordinary general meeting held on 19 February 2024.

Immediately after the Share Consolidation became effective on 21 February 2024, the authorised share capital of the Company was changed to HK$50,000,000 divided into 2,000,000,000 Consolidated Shares of par value of HK$0.025 each, of which 897,913,988 Consolidated Shares were in issue and fully paid or credited as fully paid.

Upon the Share Consolidation became effective, the Consolidated Shares rank pari passu in all respects with each other.

**(ii) Increase in Authorised Share Capital**

Pursuant to the Company's announcement dated 19 December 2023, the Company proposed to increase the authorised share capital of the Company from HK$50,000,000 divided into 20,000,000,000 Existing Shares (equivalent to 2,000,000,000 Consolidated Shares) to HK$250,000,000 divided into 100,000,000,000 Existing Shares (equivalent to 10,000,000,000 Consolidated Shares) by the creation of an additional 80,000,000,000 new Existing Shares (equivalent to 8,000,000,000 new Consolidated Shares) (the "Increase in Authorised Share Capital").

The Increase in Authorised Share Capital was approved by the shareholders of the Company at the extraordinary general meeting held on 19 February 2024.

Immediately after the Increase in Authorised Share Capital became effective on 21 February 2024, the authorised share capital of the Company was changed to HK$250,000,000 divided into 10,000,000,000 Consolidated Shares of par value of HK$0.025 each.

**(b) 2024 Placing of shares**

Pursuant to the Company's announcement dated 19 December 2023, on 19 December 2023, the Company and a placing agent (the "Placing Agent") entered into a placing agreement (the "Placing Agreement"), pursuant to which the Company has conditionally agreed to place through the Placing Agent, on a partially underwritten basis up to HK$10,000,000 (representing 27,777,778 new Consolidated Shares), 138,888,889 new Consolidated Shares (the "Placing Shares") to certain placees who and whose beneficial owners are Independent Third Parties at HK$0.36 per Placing Share (the "Placing Price") (the "2024 Placing").

The Placing Price of HK$0.36 per Placing Share represented (i) a discount of approximately 34.5% to the closing price of HK$0.055 per share as quoted on the Stock Exchange on 19 December 2023, being the date of the Placing Agreement (assuming the Share Consolidation has become effective); (ii) a discount of approximately 39.2% to the average closing price of HK$0.0592 per share on the Stock Exchange for the five (5) consecutive trading days immediately prior to the date of the Placing Agreement (assuming the Share Consolidation has become effective); and (iii) a discount of approximately 44.4% to the average closing price of HK$0.0647 per share on the Stock Exchange for the ten (10) consecutive trading days immediately prior to the date of the Placing Agreement (assuming the Share Consolidation has become effective).

The Placing Shares were allotted and issued under the special mandate (the "Specific Mandate") which was approved by the shareholders of the Company at the extraordinary general meeting held on 19 February 2024.

Pursuant to the Company's announcement dated 29 February 2024, all the conditions of the 2024 Placing have been fulfilled and completion of the 2024 Placing took place on 29 February 2024. A total of 41,510,000 Placing Shares have been successfully placed to those placees at the Placing Price of HK$0.36 per Placing Share pursuant to the terms and conditions of the Placing Agreement.

The net proceeds from the 2024 Placing, amounted to approximately HK$13.6 million (equivalent to RMB12.2 million) are intended to be used of:

(i) as to HK$10 million (equivalent to RMB9 million), being the underwritten part, for part repayment of debts to the creditors of the Company; and

(ii) as to HK$3.6 million (equivalent to RMB3.2 million) for general working capital for the period from March 2024 to December 2025 (22 months) which is necessary to allow the Company and Hong Kong subsidiaries of the Company.

The Placing Shares rank pari passu in all respects with the shares in issue on the date of allotment and issue of the Placing Shares.

Details of the above are set out in the Company's announcements dated 19 December 2023, 5 January 2024, 26 January 2024 and 29 February 2024 and the Company's circular dated 26 January 2024.

# MANAGEMENT DISCUSSION AND ANALYSIS

As disclosed in the announcement of the Company dated 20 June 2023, the Company was served with a winding-up petition issued with the High Court of Hong Kong for the winding-up of the Company under the provisions of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong) under Companies Winding-up Proceedings No. 266 of 2023 on 20 June 2023. In the circumstances, the Company has to apply to the High Court for a validation order to use the proceeds from 2024 Placing.

As disclosed in the circular dated 26 January 2024, the Company proposed to conduct rights issue to raise capital for the cash compensation elements to the Scheme Creditors. However, after careful consideration and detailed evaluation of the financial position of the Company, especially after taking into account the suspension of trading of the Shares with effect from 2 April 2024, the Company considered that it is impracticable to conduct rights issue to raise capital for the cash compensation element for the Scheme Creditors, and it is in the benefit of the Company, the Shareholders and the Scheme Creditors to remove the element of the cash compensation from the Scheme. In the circumstances, the Board had resolved to change the use of net proceeds in the following manner:

(i) approximately HK$6.3 million for the costs for the implementation of the Scheme after the Scheme has become effective; and

(ii) approximately HK$7.3 million for the general working capital of the Company and Hong Kong subsidiaries of the Company for the period from March 2024 to December 2025.

The Company has applied to the High Court and the High Court has approved the validation order for the use of proceeds from the 2024 Placing. No proceeds from the Placing have been utilised as at the date of this report.

The capital structure of the Group consists of net debts, which include the bank and other borrowings, corporate bonds and net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and various reserves.

## CHARGE ON ASSETS

As at 31 December 2023, the Group's restricted bank deposits of approximately RMB119.8 million (2022: RMB142.6 million) were mainly pledged to secure for construction of pre-sale properties and the Group's facilities of providing guarantee services to the customers. As at 31 December 2023, the Group's inventories of properties with carrying amount of RMB1,642.2 million (2022: RMB1,427 million), property, plant and equipment with carrying amount of RMB506,574,000 (2022: Nil), investment properties with carrying amount of RMB866.1 million (2022: RMB769.8 million) and 100% share equity of a subsidiary (2022: 100%) were pledged to secure for bank and other borrowings with carrying amount approximately RMB1,269.7 million (2022: RMB373.5 million) and financial related services business in PRC.

**THE CREDITORS' SCHEME OF ARRANGEMENT (THE "SCHEME") AND PROPOSED RESTRUCTURING OF THE COMPANY**

As disclosed in the announcements of the Company dated 16 June 2023, 20 June 2023, 4 July 2023, 23 August 2023, 30 August 2023, 20 September 2023, 18 October 2023, 30 October 2023, 5 January 2024, and 23 April 2024, 6 June 2024 and 19 July 2024, and the circular of the Company dated 26 January 2024 respectively (collectively, the "Announcements and Circular"), the Company is facing the winding up petition filed by its creditors. The winding up proceedings remain in process at the High Court of Hong Kong, while the Company has applied to the High Court of Hong Kong for a proposed scheme of arrangement (i.e. the "Scheme", as explained below) to be entered into between the Company and certain creditors of the Scheme (i.e. the "Scheme Creditors", as explained below).

On 30 June 2023, the Company has appointed a restructuring adviser (the "Restructuring Adviser") to liaise with the Company's creditors and to assist in the formulation of a restructuring plan. With the help of its Restructuring Adviser, the Board was able to formulate the terms of the proposed restructuring (the "Proposed Restructuring", as explained below), which the Board considers to be in the interest of all of the stakeholders in the Company, including the scheme creditors (the "Scheme Creditors").

On 6 June 2024, the High Court of Hong Kong has granted an order to the Company to convene a meeting of the creditors of the Company for the Scheme. Such creditors' meeting is tentatively scheduled to be held on 16 August 2024 and the sanction hearing of the High Court of Hong Kong for the Scheme is tentatively fixed on 17 September 2024.

Pursuant to the Company's announcement dated 19 July 2024, the Proposed Restructuring comprises two main components namely (i) Increase in Authorised Share Capital; and (ii) the Scheme and details of which are as following:

1. The Increase in Authorised Share Capital: to facilitate the issuance of scheme shares (the "Scheme Shares"), the Company will reorganise its capital by increasing its authorised share capital from HK$250,000,000 divided into 10,000,000,000 shares to HK$2,500,000,000 divided into 100,000,000,000 shares.

2. The Scheme: the scheme claims (the "Scheme Claims") of the Scheme Creditors against the Company as at the effective date of the Scheme (the "Effective Date") will be discharged and released in full. In return, the Scheme Creditors whose claims are admitted will be entitled to the benefit of the scheme consideration which consists of the Scheme Shares.

Under the Scheme, the Scheme Claims of the Scheme Creditors will be compromised and discharged. In return, the Scheme Creditors with admitted claims will be entitled to receive the Scheme Shares. The Scheme Claims to be compromised essentially comprise any debt, liability or obligation of the Company which arose on or before the Effective Date but excludes the excluded claims (the "Excluded Claims"). Excluded Claims include Preferential Claims, Secured Claims, Operational Claims and Petition Costs.

Further, under the Scheme, it is proposed that the Company will settle the Scheme Claims by way of, among other things, the issuance of Scheme Shares, which shall settle the relevant amount of the Scheme Claims on a dollar to dollar basis.

The Scheme Shares shall be allotted and issued at the Scheme Share issue price of HK$0.0904 per Scheme Share in respect of the admitted claims. The Scheme Shares will be allotted and issued under the name of the relevant Scheme Creditors, but the physical certificates of the Scheme Shares will be placed in the custody of the scheme company. The Scheme Shares will be subject to various lock-up periods in accordance with the lock up arrangement and will have the benefit of the make good undertaking, meaning that the Company will appoint the scheme placing agent at its own expense to facilitate the placing of the Scheme Shares and will provide compensation if such shares are disposed of at a price less than the relevant guaranteed selling prices.

Further details of the above are set out in the Announcements and Circular.

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

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in (i) assets management business (mainly including property development and investment); (ii) provision of financial related services (mainly including finance lease services and express loan services); (iii) commodity trading business; and (iv) automobile e-commerce business. The principal activities and other particulars of the subsidiaries are set out in note 44 to the financial statements.

## CORPORATION ORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 4 December 2012. Pursuant to a reorganisation to rationalise the group structure in preparation for the listing ("Listing"), the Company became the holding company of the Group. Details of the reorganisation are set out in the prospectus of the Company dated 3 December 2013. The Company was listed on GEM of the Stock Exchange on 9 December 2013 and was transferred Listing to Main Board on 6 July 2015.

## RESULTS AND DIVIDENDS

The Group's financial performance for the year ended 31 December 2023 and the financial position of the Group at that date are set out in the financial statements on pages 128 to 131 of this annual report.

The Directors do not recommend the payment of final dividend for the year ended 31 December 2023 (2022: Nil).

## DIVIDEND POLICY

The dividend policy of the Company aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company.

### *PRINCIPLES AND GUIDELINES OF DIVIDEND POLICY*

(a) The Board adopts the policy that, in recommending or declaring dividends, the Company shall maintain as position of financial stability and solid cash reserves to take advantage of any expansion or investment opportunities that may rise from time to time, and for meeting its working capital requirements and future growth as well as its shareholder value.

(b) The Company does not have any pre-determined dividend payout ratio.

(c) The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the Memorandum of Association and the Bye-Laws of the Company and all applicable laws and regulations and the factors set out below.

(d) The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends:

- financial results;
- cash flow situation;
- business conditions and strategies;
- future operations and earnings;
- capital requirements and expenditure plans;
- interests of shareholders;
- business environment;
- any restrictions on payment of dividends; and
- any other factors that the Board may consider relevant.

(e) Depending on the financial conditions of the Company and the Group and the conditions and factors as set out above, dividends may be proposed and/or declared by the Board for a financial year or period:

- interim dividend;
- final dividend;
- special dividend; and
- any distribution of net profits that the Board may deem appropriate.

(f) Any final dividend for a financial year will be subject to shareholders' approval.

(g) The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

(h) Any dividend unclaimed shall be forfeited and shall revert to the Company in accordance with the Memorandum of Association and the Bye-Laws of the Company.

The Board will review this policy as appropriate from time to time.

# DIRECTORS' REPORT

## FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the past five years is set out in the financial summary on pages 3 to 4 of this report. This summary does not form part of the audited financial statements in this annual report.

## SHARE CAPITAL

Details of the Company's share capital during the year are set out in note 34 to the financial statements in this annual report.

## PROPERTY, PLANT AND EQUIPMENT

The details of movements in the property, plant and equipment of the Group for the year ended 31 December 2023 are set out in note 15 to the financial statements in this annual report.

## RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively in the report. Details of the distributable reserves of the Company are set out in note 43 to the financial statements. There was no Company's reserves available for distribution to members as at 31 December 2023 (2022: RMB907.0 million).

## PURCHASE, SALE OR REDEMPTION OF THE SECURITIES

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

## MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's largest customer and the five largest customers accounted for approximately 2.9% and 8.0% of the Group's total income for the year ended 31 December 2023 respectively.

The purchases made by the Group from its largest supplier and the five largest suppliers accounted for approximately 3.7% and 5.0% of the Group's total cost of sales for the year ended 31 December 2023 respectively.

None of the Directors or any of their close associates or any shareholders of the Company (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 ended 31 December 2023.

# DIRECTORS' REPORT

## DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

**Executive Directors**

Mr. NG Chi Chung *(Chairman and Chief Executive Officer)*
Dr. FENG Xiaogang
Mr. TONG Lu *(appointed on 15 May 2023)*

**Non-executive Directors**

Mr. KANG Fuming
Mr. XU Yiwei *(resigned on 4 June 2024)*

**Independent Non-executive Directors**

Mr. CHAN Sing Nun
Mr. LAM Kit Lam
Mr. CHEN Naike *(resigned on 15 May 2023)*
Ms. CHUANG Yin Lam *(appointed on 15 May 2023)*

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographical information of the Directors and senior management of the Group are set out on pages 7 to 9 of this report.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years and renewable automatically until terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter. Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company. Each letter of appointment is for an initial term commencing on the date of the letter of appointment of three years unless terminated by either party giving at least one month's notice in writing. All the Directors are subject to retirement by rotation and re-election at the AGM of the Company pursuant to its articles of association.

None of the Directors proposed for re-election at the AGM has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed elsewhere in the financial statements, no Directors had material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

## EMOLUMENT POLICY AND REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

The remuneration committee is set up for reviewing the Group's emolument policy and structure of all remuneration of the Directors of the Company, having regard to the Group's operating results, individual performance and comparable market practices.

Details of the emoluments of the Directors and five individuals with highest emoluments are set out in note 12 to the financial statements in this report.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the sections "Share Option Scheme" and "Disclosure of interests by Directors and Chief Executives in the Company" below, at no time during the year ended 31 December 2023 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme", no equity-linked agreements were entered by the Group or existed during the year.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme was adopted by the Company on 26 November 2013. Eligible participants of the Scheme include (a) full time or part time employees of our Group (including any Directors or directors of any subsidiary or any invested entity); (b) any suppliers, customers, consultants, agents, advisers, service providers; (c) any shareholder of any member of our Group or any invested entity or any holder of any securities issued by any member of our Group or any invested entity and partner or joint venture partner of our Company or any subsidiary or any invested entity; and (d) and person who, in the sole discretion of the board of directors, has contributed or may contribute to our Group or any invested entity eligible for any options under the Scheme. The Scheme shall be valid and effective for a period of 10 years commencing on the date it was adopted.

An offer of the grant of any option under the Scheme may be accepted within 21 business days from the date of grant together with a remittance of HK$1.00 by way of consideration for the grant thereof. No option shall be granted to any eligible person if any further grant of options would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person in the 12 months period up to and including such further grant would exceed 1% of the total number of shares in issue, unless such further grant has been duly approved by the Company's shareholders in general meeting.

The exercise price of the option shall be determined at the discretion of the board of directors which shall be the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares. Details of the principal terms are set out in the paragraph headed "Share Option Scheme" under the section headed "Statutory and General Information" of the Prospectus.

The total number of shares in respect of which options may be granted under the Scheme shall not exceed 400,000,000 shares, being 5.55% of the total number of shares in issue as at 1 January 2023. As at 31 December 2023 and the date of this report, no share options may be granted under the Scheme as the Scheme has expired on 25 November 2023. On 25 April 2016, the Company granted an aggregate of 84,108,000 share options to the eligible persons. All share options which were granted under the Scheme had lapsed as at 31 December 2021.

The Scheme has expired on 25 November 2023 and no further share options can be offered or granted upon its expiration. No share options were granted during the year ended 31 December 2023 and no share options were outstanding as at 1 January 2023 and 31 December 2023.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year are set out in note 45 to the financial statements in this annual report. None of those transactions constitutes a disclosable connected transaction pursuant to Chapter 14A of the Listing Rules.

## CONNECTED TRANSACTIONS

During the year, the Group had not entered into any connected transaction which is subject to annual reporting under Chapter 14A of the Listing Rules.

## BUSINESS MODEL, CREDIT RISK ASSESSMENT POLICY AND KEY INTERNAL CONTROL OF FINANCIAL RELATED SERVICES

### (1) Express Loan Business

***BUSINESS MODEL***

We generally provide short-term loans to our customers who pledge their assets to us. The loan amount is usually capped at a certain percentage of the appraised value of the asset pledged to us (if any) by our customers. In return, our customers pay us interests which are calculated as a percentage of the loan amount. As for governance structure, we have established a management team, comprising of an executive director, responsible persons of the loan business, financial department and legal department to approve and review our loans.

The management team generally carry out a risk management practice to diversify our loan portfolio as its best effort and, for the year ended 31 December 2023, limiting individual loan to a level no larger than 5% of the total assets of the Group to ensure the relevant credit risk impact, even if realized, would be contained.

***CREDIT RISK ASSESSMENT POLICY***

It is our Group's policy that all customers' application for the loan are subject to credit risk assessment and background search. Our procedures generally include the following key steps:

**a) Application**

An applicant is required to provide us with the following information:

(i) the identity and basic information of the applicant;

(ii) details of the proposed loan amount, the intended loan period and the purpose of the loan;

(iii) for corporate customer, the business background of its owners, the key financial information, details of its directors and shareholders;

(iv) details of any proposed collateral (if any) and/or guarantees (if any) that will be provided;

(v) if applicable, the identity and basic information of the intended guarantor (if any) and descriptions of key assets and liabilities of the intended guarantor.

**b) Assessment**

After receiving the information, our business manager generally will verify the authenticity of the documents, and conduct an assessment of the application. Our business manager generally will select applicants by considering the following factors in assessment, such as the company with legally compliant business operations, efficient production processes, good credit records and good business reputation.

**c) Due Diligence**

If our business manager is satisfied with the application after the preliminary assessment, we will perform due diligence on the applicant and, where applicable, the guarantor.

**d) Approval of applications**

Our management will meet to consider the application. In addition, before final approval, our legal and compliance department will generally check the terms of the relevant agreements to ensure that the terms are in full compliance with the relevant laws and regulations.

### KEY INTERNAL CONTROLS

After the commencement of the loan period, we will conduct on-going monitoring of the loan recoverability and the value of relevant collateral.

#### Monitoring of the loan recoverability

Monitoring of the loan recoverability generally includes telephoning the borrowers on a regular basis to remind them for the repayment schedule and understand if there is any foreseeable difficulties in repayment, etc.

#### Monitoring of the value of the collateral

Our business managers are responsible for monitoring of the value of the collateral (if any) on an on-going basis. For all types of collaterals, our business managers will conduct a check on the value of the collateral annually.

#### Follow up measures

If, as a result of monitoring of loan recoverability and the value of the collateral, we become aware of any circumstances that would negatively affect the collectability of our outstanding loan receivables, we may (i) discuss with our customer regarding ways to improve the situation; (ii) request our customer to provide additional collateral and/or guarantees; and/or (iii) demand immediate payment or repayment of the full outstanding amount from our customer.

#### Enforcement of collateral or guarantee

If a customer fails to repay the principal or interest by its due date, we will contact the customer immediately to understand the situation. We may also consider to instruct our lawyers to commence legal proceedings against the customer to recover any late payment charges and penalty interest and/or to enforce the collateral and guarantee, if any.

Details of the loan receivable are set out in section "Reversal of (impairment loss) on financial assets" in MD&A and note 19 to the financial statement of this report.

**(2) Finance Lease Service Business**

***BUSINESS MODEL***

We generally provide finance leases to corporate customers, which are mainly small and medium enterprises, incorporated and operating in Mainland China. Finance lease is an arrangement by which we purchase certain asset from our customer (or supplier designated by such customer) in cash and then lease it back to our customer immediately afterwards in return for a series of monthly rental payments payable by our customers to the Group over a pre-agreed lease period as well as an up-front one-off handling fee. Our customer will continue to have custody and the right to use the asset throughout the lease period. At the end of the lease period, the title of ownership of the asset will be transferred to our customer upon its exercise of option and payment of a nominal consideration. The Group mainly provide the finance lease services for machineries, properties and motor vehicles. Our finance lease customers are channelled through 1) our own business network and 2) referrals from our business partners, banks and chamber of commerce.

The Group manage the risks of our lease portfolio through:

- The monitoring of the repayment from customers
- The monitoring of the value of underlying assets
- The contractual right to claim and revert the ownership of the underlying assets in the event of default payment.

As the Group has deployed the financial resources to other businesses in recent year, there were no new customers for the finance lease service business for the year ended 31 December 2023.

***CREDIT RISK ASSESSMENT POLICY***

It is our Group's policy that all application from customers for finance lease are subject to credit risk assessment and background search. Our procedures generally include the following key steps:

**a) Application**

An applicant is required to provide us with the following information:

(i) the identity and basic information of the applicant;

(ii) for corporate customer, the business background of its owners, the key financial information, details of its directors and shareholders;

b) **Assessment**

After receiving the information, our business manager generally will verify the authenticity of the documents and conduct an assessment of the application. Our business manager generally will consider the following factors in risk assessment, such as the company with legally compliant business operations, efficient production processes, good credit records and good business reputation.

c) **Due diligence**

If our business manager is satisfied with the application after the preliminary assessment, we will perform due diligence on the applicant.

d) **Valuation of underlying assets**

Our business manager also assesses the valuation of underlying assets at market level and estimates its recovery level annually.

e) **Approval of applications**

Our management will meet to consider the application. In addition, before final approval, our legal and compliance department will check the terms of the relevant agreements to ensure that 1) the terms are in full compliance with the relevant laws and regulations and 2) terms are legally justified for the Group to claim and recover ownership of underlying asset in the event of default in payment.

***KEY INTERNAL CONTROLS***

Other than adoption of the above stated measures, the Company has also implemented several post-approval monitoring controls.

After the commencement of the lease period, we will conduct on-going monitoring of the lessee. Monitoring of the lessee includes telephoning the borrower on a regular basis in order to remind the borrower of its repayment schedule and understand if there is any foreseeable difficulty in repayment, etc.

**Monitoring of the value of the underlying assets**

Our business managers are responsible for monitoring of the value of the underlying assets on an on-going basis. Our business managers also conduct a formal valuation assessment annually. The Company has an annually recurring practice to engage a professional valuation firm to assess the valuation of underlying assets and to issue related valuation reports. The Company is satisfied with 1) the valuation-related qualifications, experience and independence of the core valuation team members and 2) the valuation approach and methodology they have adopted for differently-attributed pledged assets.

**Follow up measures**

If, as a result of our post-approval monitoring, we become aware of any circumstances that would negatively affect the collectability of our outstanding lease receivables, we may (i) discuss with our customer regarding ways to improve and/or remedy the situation; (ii) request our customer to provide additional collateral and/or guarantees; and/or (iii) demand immediate payment or repayment of the full outstanding amount from our customer.

**Enforcement of underlying assets**

If a customer fails to repay the principal or interest by its due date, we will contact the lessee immediately to understand the situation. We may also consider instructing our lawyers to commence legal proceedings against the customer to recover any late payment charges and penalty interest and/or to enforce the underlying assets.

Details of financial lease receivables are set out in section "Reversal of (impairment loss) on financial assets" in MD&A and note 19 to the financial statement of this report.

## CHANGE IN INFORMATION OF DIRECTORS DISCLOSED PURSUANT TO LISTING RULE 13.51B(1)

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors since the Company's 2022 Annual Report are set out below:

## CHANGE OF DIRECTORS

On 15 May 2023, Mr. Chen Naike has resigned as an independent non-executive director.

On 15 May 2023, Ms. Chuang Yin Lam has been appointed as an independent non-executive director.

On 15 May 2023, Mr. Tong Lu has been appointed as an executive director.

On 4 June 2024, Mr. Xu Yiwei has resigned as a non-executive director.

## DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES IN THE COMPANY

As at 31 December 2023, the interests and short positions of the Directors or chief executives of the Company and their associates in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (i) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Companies" contained in the Listing Rules, were as follows:

**Long positions in Shares, Underlying Shares or Debentures of the Company**

| Name of Director | Capacity/Nature of interest | Number of Shares | Approximate percentage of the total issued share capital of the Company |
|---|---|---|---|
| Mr. Ng | Interest in controlled corporation *(Note 1)* | 36,306,000 | 0.40% |

*Note:*

1. These Shares were held by Ever Ultimate Limited ("Ever Ultimate"), which was wholly and beneficial owned by Mr. Ng. By virtue of the SFO, Mr. Ng is deemed to be interested in the 36,306,000 Shares under the SFO.

Save as disclosed above, as at 31 December 2023, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required to be entered in the register referred to therein pursuant to section 352 of the SFO; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

## DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2023, so far as any Directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

**Long positions in Shares, Underlying Shares or Debentures of the Company**

| Name | Capacity/ Nature of interest | Number of Shares | Approximate percentage of the total issued share capital of the Company |
|---|---|---|---|
| Mr. Hong Mingxian ("Mr. Hong") | Interest in controlled corporation *(Note 1)* | 1,300,000,000 | 14.48% |
| Expert Corporate Limited ("Expert Corporate") | Beneficial owner *(Note 1)* | 1,300,000,000 | 14.48% |
| Ms. Shi Hongjiao ("Ms. Shi") | Interest of spouse *(Note 2)* | 1,300,000,000 | 14.48% |
| Huatai Securities Co., Ltd. | Interest in controlled corporation *(Note 3)* | 516,488,000 | 5.75% |
| Huatai International Financial Holding Company Limited | Interest in controlled corporation *(Note 3)* | 516,488,000 | 5.75% |
| Huatai Financial Holdings (Hong Kong) Limited | Beneficial owner *(Note 3)* | 516,488,000 | 5.75% |
| Tianjin Binhai Rural Commercial Bank Corporation | Person having a security interest in shares | 1,300,000,000 | 14.48% |

*Notes:*

1. These Shares were held by Expert Corporate of 1,300,000,000 shares as at 31 December 2023, which was wholly and beneficial owned by Mr. Hong. By virtue of the SFO, Mr. Hong is deemed to be interested in the 1,300,000,000 Shares under the SFO.

2. Ms. Shi is the spouse of Mr. Hong.

3. These Shares were held by Huatai Financial Holdings (Hong Kong) Limited.

Save as disclosed above and as at 31 December 2023, the Directors are not aware any interests or short positions owned by any persons (other than the Directors or chief executives of the Company) in the Shares or underlying shares of the Company which were required to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

**PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the articles of association of the Company or the laws of Cayman Islands in relation to the issue of new shares.

**CHARITABLE DONATIONS**

Charitable donations made by the Group during the year ended 31 December 2023 amounted to HK$35,000 (2022: HK$100,000).

**SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report as required under the Listing Rules.

**DIRECTORS' INTERESTS IN A COMPETING BUSINESS**

As far as the Directors are aware of, none of the Directors or any of their respective associates (as defined in the Listing Rules) has any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year ended 31 December 2023.

**EXTRACT OF INDEPENDENT AUDITOR'S REPORT**

The following is an extract of the independent auditor's report on the Group's audited consolidated financial statements for the year ended 31 December 2023.

**DISCLAIMER OF OPINION**

We do not express an opinion on the consolidated financial statements of the Group. Because of the significant of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to form an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with disclosure requirements of the Hong Kong Companies Ordinance.

**BASIS FOR DISCLAIMER OF OPINION**

**Multiple uncertainties relating to going concern**

As described in note 2(b) to the consolidated financial statements, for the year ended 31 December 2023, the Group incurred a net loss attributable to the shareholders of the Company of approximately RMB2,522,332,000 and a net operating cash outflow of approximately RMB771,205,000, and as of that date, the Group had net current liabilities of approximately RMB1,005,138,000.

As at 31 December 2023, the Group was in default in most of the bank and other borrowings and corporate bonds due to the events of default of late or overdue payment of loan principal and interest or cross default the Group's borrowings, which, as a consequence, would be immediately repayable if and when requested by the lenders.

Moreover, the Company was served with a winding-up petition from a corporate bond holder issued with the High Court of Hong Kong for the winding-up of the Company.

These conditions, together with other matters described in note 2(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business.

The directors of the Company have been undertaking a number of measures and plans to improve the Group's liquidity and financial position, and to mitigate the liquidity pressure and to improve the Group's financial position, which are set out in note 2(b) to the consolidated financial statements.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures and plans, which are subject to multiple uncertainties, including:

(i) The successful execution and completion of the Scheme and Proposed Restructuring in restructuring indebtedness payables to Scheme Creditors;

(ii) The successful execution and completion of the Financing Restructuring Plan in restructuring and renewal its existing borrowings from those lenders and creditors when their current terms expire;

(iii) The recovery of the real estate sector and other businesses to generate cash inflow from its operations, settlement of various receivables upon their maturity and payment request by the Group as planned and scheduled;

(iv) The successful in obtaining Funds from Operations and Businesses in accordance with the timeline of the cash flow projection reviewed by the directors of the Company; and

(v) The successful in obtaining Additional and Alternative Sources of Financing other than those mentioned above in meeting its financial obligations as and when they need.

The Group's ability to obtain the abovementioned financing and operating funds depends on: (i) current and ongoing regulatory environments and how the relevant policies and measures might affect the Group and/or the relevant financial institutions; and (ii) whether the lenders and creditors of existing bank and other borrowings are agreeable to the terms and conditions for such extension or renewal and the Group's ability to continuously comply with the relevant terms and conditions of bank and other borrowings.

As a result of the abovementioned multiple uncertainties, the potential interaction of these uncertainties, and the possible cumulative effect thereof, we were unable to form an opinion as to whether the going concern basis of preparation is appropriate.

Should the Group fail to achieve the abovementioned measures and plans, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down 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 non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

**OTHER MATTERS IDENTIFIED**

The other matters identified below do not form part of paragraphs in relation to the disclaimer of opinion or the basis for disclaimer opinion. Had we not disclaimed our opinion regarding multiple uncertainties relating to going concern of the Group as described above, we would otherwise have issued a qualified opinion on the basis of the following scope limitations relating to (i) Recoverability of Receivables from customers, borrowers and counterparties; and (ii) Opening balances and comparative figures:

1. **Recoverability of Receivables from customers, borrowers and counterparties**

   As disclosed in the consolidated financial statements, during the year ended 31 December 2023, despite the exerted efforts of the directors of the Company to request certain customers, borrowers and counterparties in settling the Doubtful Loan and Account Receivables and Doubtful Other Receivables amounted to approximately RMB465,391,000 and approximately RMB129,687,000, respectively (collectively the "Receivables"), however, such customers, borrowers and counterparties did not settle the outstanding Receivables in accordance with the terms of the relevant contracts and agreements. The directors of the Company have taken certain alternatives to recover the Receivables from these customers, borrowers and counterparties, such as to take legal actions against them. In the circumstances of default in settlement, the Group recognised impairments of such Doubtful Loan and Account Receivables and Doubtful Other Receivables amounted to approximately RMB464,163,000 and RMB129,687,000, respectively which were charged to consolidated profit or loss for the year. The directors of the Company consider that the information used in their impairment assessment represented the best available estimates from the information available.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves about the recoverability of the Receivables as at 31 December 2023 and hence the determination of impairment losses on such Receivables recognised in consolidated profit or loss for the year then ended because we were not provided with reasonable explanation and supporting documents to substantiate the recoverability of the Receivables as at 31 December 2023 and hence the determination of impairment losses on such Receivables recognised in consolidated profit or loss for the year then ended. There were no alternative satisfactory audit procedures that we could adopt to determine the recoverability of the Receivables as at 31 December 2023 and hence the determination of impairment losses on such the Receivables recognised in consolidated profit or loss for the year then ended contain material misstatements.

2. **Opening balances and comparative figures**

The consolidated financial statements of the Group for the year ended 31 December 2022 which form the basis for the corresponding figures presented in the current year's consolidated financial statements were not audited by us.

As at 31 December 2022 and 31 December 2023, included in the Group's finance lease, loan and account receivables and other financial assets, there were balances with customers, borrowers and counterparties with an aggregate gross amount of approximately RMB156,088,000 and RMB166,025,668, respectively, and hence, during the year ended 31 December 2023, related impairment losses/fair value losses with an aggregate amount to approximately RMB136,680,000 was recognised in the consolidated profit or loss for the year. No direct confirmations have been received or sufficient appropriate evidence is available to verify the validity and accuracy of the net current amounts of such receivables from the customers, borrowers and counterparties recorded in the consolidated financial statements as at 31 December 2022 and 31 December 2023 and hence the related impairment losses/fair value losses recognised for the year ended 31 December 2023. Thus, we are unable to determine whether such balances with customers, borrowers and counterparties recorded in the consolidated financial statements as at 31 December 2022 and 31 December 2023 and hence the related impairment losses/fair value losses recognised for the year ended 31 December 2023 were free from material misstatements. This matter also has a possible effect on the comparability of the current period's figures and the corresponding figures in the consolidated financial statements of the Company for the year ended 31 December 2023.

There were no other satisfactory audit procedures to ascertain the existence, accuracy, presentation and completeness of opening balances and corresponding figures shown in the current year's consolidated financial statements for the year ended 31 December 2023.

Our opinion on the current year's consolidated financial statements is modified also because of the possible effect of these matters on the comparability of current year's figures and corresponding figures.

Had we been able to satisfy ourselves in respect of the matters mentioned above, adjustments might have been found to be necessary which would have had a consequential impact on the net assets of the Group as at 31 December 2022 and 31 December 2023 and its net loss and cash flows for the year ended 31 December 2023, and the related disclosures in the consolidated financial statements thereon.

### OTHER MATTERS

The consolidated financial statements of the Group for the year ended 31 December 2022, were audited by another auditor who expressed an unmodified opinion with an emphasis of matter paragraph about the going concern basis on those consolidated financial statements on 31 March 2023.

### MANAGEMENT VIEW AND ACTION PLANS TO BE IMPLEMENTED BY THE COMPANY IN RESPONSE TO THE AUDITOR'S MODIFIED OPINION

### THE COMPANY'S RESPONSE TO DISCLAIMER OF OPINION RELATING TO GOING CONCERN

As described in note 2(b) to the financial statements of this report, for the year ended 31 December 2023, the Group incurred a net loss attributable to the shareholders of the Company of approximately RMB2,522,332,000 and a net operating cash outflow of approximately RMB771,205,000, and as of that date, the Group had net current liabilities of approximately RMB1,005,138,000.

As at 31 December 2023, the Group was in default in most of the bank and other borrowings and corporate bonds as at 31 December 2023 due to the events of default of late or overdue payment of loan principal and interest or cross default the Group's borrowings, which, as a consequence, would be immediately repayable if and when requested by the lenders.

Moreover, the Company was served with a winding-up petition from a corporate bond holder issued with the High Court of Hong Kong for the winding-up of the Company.

These conditions, together with other matters described in note 2(b) to the financial statements of this report, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business.

As described in section headed "Extracts from the Independent Auditor's Report" in this announcement, the Company's auditors, Yongtuo Fuson CPA Limited (currently practising under the name of SFAI (HK) CPA Limited) (the "Auditors") issued a disclaimer of opinion (the "Disclaimer of Opinion") regarding multiple uncertainties relating to going concern of the Company (the "Multiple Uncertainties relating to Going Concern"). In respect of the basis for Disclaimer of Opinion — Multiple Uncertainties relating to Going Concern relating to the appropriateness of the assumption regarding the Company's ability to continue as a going concern, the Group has prepared a forecast covering a period of not less than twelve months from the end of the reporting period taking into account of a number of measures and plans to improve the Group's liquidity and financial position, and to mitigate the liquidity pressure and to improve the Group's financial position, which are set out in note 2(b) to the financial statements of this report, including but not limited to:

(i) The Company proposed the Scheme and formulated the terms of the Proposed Restructuring to restructure its indebtedness payables to Scheme Creditors as described in 2(a) to the financial statements of this report;

(ii) The Group maintains continuous communication with other lenders and creditors and the directors believe that the existing borrowings available to the Group will be successfully restructured and renewed when their current terms expire given the long standing relationship the Group has with the relevant counter parties;

(iii) The Group has been actively monitoring its finance lease, loan and account receivables and other receivables to ensure their collectability upon their maturity and payment to the subcontractors and suppliers request by the Group so as to complete the Group's construction projects as scheduled. In addition, the Group will retain sufficient fund in order to alleviate the Group's liquidity pressure;

(iv) The Group will continue to focus in maintaining its inventories of properties and adopting a more proactive sale strategy to attract purchasers. The directors expect that there will have a recovery of the PRC's economy from the effects of the COVID-19 pandemic, especially the recent measures imposed by the PRC government to stabilise the properties market that will enhance the growth of the Group's property business and thus, the Group's cash flows will be improved.

According to the current properties' construction schedule, the directors estimate that most of its current properties' construction will be completed before the financial year ending 31 December 2025 and with the completion and promotion of sales of inventories of properties, the directors expect that the Group is able to obtain cash flows from its property development business, such as among five (5) major properties development projects of the Group, the construction of the three (3) projects (Differ Humane Mansion, the People Ancient City and ChuZhouFu City) were completed and the construction of two projects (Differ Sky Peak and Differ One City) is still in progress. The directors consider that the Group will generate satisfactory income and cash flows from the sales of properties in the coming years.

The Group continues to generate operating cash flows for the next twelve months by implementing various strategies to improve the Group's income from property development and investment, financial services and automobile e-commerce to generate additional operating cash inflows; and

(v) The Group will also continue to seek for other additional and alternative financing to finance the settlement of its existing financial obligations and future operating expenditures.

The Group's ability to obtain the abovementioned financing and operating funds depends on: (i) current and ongoing regulatory environments and how the relevant policies and measures might affect the Group and/or the relevant financial institutions; and (ii) whether the lenders and creditors of existing bank and other borrowings are agreeable to the terms and conditions for such extension or renewal and the Group's ability to continuously comply with the relevant terms and conditions of bank and other borrowings.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of the above-mentioned measures and plans.

Should the Group fail to achieve the abovementioned measures and plans, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down 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 non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

After discussion with the Auditors, the management of the Company expects that, on the assumptions that

(i) The measures and plans as mentioned above have been successfully implemented, especially the conclusion and finalisation of the Scheme and Proposed Restructuring.

On 6 June 2024, the High Court has granted an order to the Company to convene a meeting of the creditors of the Company for the Scheme. Such creditors' meeting is tentatively scheduled to be held on 16 August 2024 and the sanction hearing of the High Court for the Scheme is tentatively fixed on 17 September 2024.

Thus, the directors of the Company are very optimistic and confident that the Scheme and Proposed Restructuring will be approved by the Scheme Creditors in the near future so that the Company will be successfully in restructuring the debts with the Scheme Creditors;

(ii) The Company and each of the Company's operating subsidiaries has continued to operate as normal; and

(iii) There are no other material threats to its status as a going concern, the directors considered that the Group will have sufficient liquidity to finance its operations for the foreseeable future and therefore of a view that the Group would be able to continue as a going concern.

In this regard, although whether the Group is able to continue as a going concern that is subject to successful implementation of the measures and plans, especially the conclusion and finalisation of Scheme and Proposed Restructuring such that the Auditors were not able to obtain sufficient audit evidence, the above-mentioned measures and plans have been initially formulated and is in an advanced stage and thus the management of the Company is optimistic about the outcome of measures and plans thereof.

**THE COMPANY'S RESPONSE TO OTHER MATTERS IDENTIFIED**

As disclosed in the section headed "Extract of the Independent Auditor's Report", the Company's Auditors had other matters identified (the "Other Matters Identified"), i.e. (i) Receivables from customers, borrowers and counterparties; and (ii) Opening balances and comparative figures.

The directors of the Company would like to emphasise that:

**(i) Limitation of scope on the financial information regarding Receivables from certain customers, borrowers and counterparties**

The Company's Auditors sent the audit confirmations directly to the Company's customers, borrowers and counterparties to ascertain the validity, accuracy and credit risk assessments of the respective carrying amounts as recorded in the Company's books and also the major terms of the relevant transactions. Despite the exerted efforts of the management of the Company and the Company's Auditors to contact those customers, borrowers and counterparties, debtors regarding of the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances, however, these customers, borrowers and counterparties did not reply to the Company's Auditors' and the Company's request. No reply was obtained from such debtors.

In such circumstances, the Auditors advised that they were unable to carry out effective confirmation procedures in relation to these outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances for the purpose of their audit. The Company's Auditors then proposed to conduct alternative procedures, such as to arrange direct phone call, direct interview and direct visit to these customers, borrowers and counterparties so as to ascertain the validity, accuracy and credit risk assessments of the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances and hence, to assess the reasonableness of the impairment losses recognised for such outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances. Though despite the exerted additional efforts of the management of the Company and the Company's Auditors to contact these customers, borrowers and counterparties again and again, unfortunately, these customers, borrowers and counterparties did not reply to the Company's Auditors' and the Company's request again.

The management of the Company has then further communicated with the Company's Auditors whether there are any other alternative procedures that they could be conducted to ascertain the validity, accuracy and credit risk assessments of the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances and also to assess the reasonableness of the impairment losses recognised for such outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances, such as to provide the accounting records and documents, as well as the public search records etc.

With lengthy communication with the Company's Auditors, they concluded that: (i) they are unable to carry out effective confirmation procedures in relation to the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances for the purpose of their audit; and (ii) there is no sufficient financial and non-financial information on such customers, borrowers and counterparties to assess the financial position of these debtors so as to ascertain the validity, accuracy and credit risk assessments of the carrying amounts of the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances and hence the determination of the related impairment losses recognised for the year ended 31 December 2023. In such circumstances, there are no other satisfactory alternative audit procedures that they could adopt to ascertain the validity, accuracy and credit risk assessments of the carrying amounts of the Doubtful Loan and Account Receivables and Doubtful Other Receivables balances and hence the determination of the related impairment losses recognised for the year ended 31 December 2023 thereon.

The directors of the Company noted that, out of the Group's receivables from customers, borrowers and counterparties, despite the exerted efforts of the management of the Company to request certain customers, borrowers and counterparties in settling the Doubtful Loan and Account Receivables and Doubtful Other Receivables (before impairment provision) amounted to approximately RMB465,391,000 and RMB129,687,000, respectively (collectively the "Receivables"), however, such customers, borrowers and counterparties did not settle the outstanding Receivables or deliver their promised goods in accordance with the terms of the relevant contracts and agreements. The directors of the Company have taken certain alternatives to recover the Receivables from these customers, borrowers and counterparties, such as to take legal claim and litigation actions against them.

In the circumstance of default in settlement, the directors of the Company consider that it is uncertain and the possibility is low in recovering the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables from the customers, borrowers and counterparties in the near future. It is more prudence and conservative and hence, the Group recognised impairment of such Doubtful Loan and Account Receivables and Doubtful Other Receivables amounted to approximately RMB464,163,000 and RMB129,687,000, respectively which were charged to consolidated profit or loss for the year. After such impairment loss recognized, the net carrying amount of Doubtful Loan and Account Receivables and Doubtful Other Receivables become nil. The directors of the Company consider that the information used in their impairment assessment represented the best available estimates from the information available.

Though the Company has already made full impairment on the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables at the moment, other than taking legal actions against these customers, borrowers and counterparties, the directors are considering certain alternatives (the "Alternatives"), such as: (i) the directors are continuing to take a proactive approach in communicating with the customers, borrowers and counterparties in restructuring the outstanding balances with the customers, borrowers and counterparties so as to recover part of the debts from them; or (ii) the directors are considering to dispose the said receivables to third parties so as the recover part of the outstanding balances, if any. Thus, the directors consider that the issue will be resolved during the year ending 31 December 2024.

After discussion with the Auditors, the directors of the Company consider that: (i) the Doubtful Loan and Account Receivables and Doubtful Other Receivables were made before and during the year ended 31 December 2023; (ii) as time goes by, the chance to recover the relevant Doubtful Loan and Account Receivables and Doubtful Other Receivables will be slimmer, accordingly the uncertainty on the impairment losses made in the consolidated financial statements for the year ended 31 December 2023 as mentioned above; (iii) full impairment losses have been made to Doubtful Loan and Account Receivables and Doubtful Other Receivables during the year ended 31 December 2023 based on the best information available; (iv) the Company has conducted follow-up actions, such as legal claim and litigation actions in demanding these customers, borrowers and the counterparties to settle the outstanding Receivables; (v) the assets concerned are nil at the end of the financial-year-end date 31 December 2023; and (vi) the qualification relating to Receivables from customers, borrowers and counterparties was mainly due to the Auditors was unable to obtain sufficient audit evidence to ascertain the validity, accuracy and credit assessments of the carrying amounts of the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances as at 31 December 2023 and hence the determination of the related impairment losses recognised for the year ended 31 December 2023.

In this regard, after discussion with the Auditors, since the directors of the Company consider that the impairment for Doubtful Loan and Account Receivables and Doubtful Other Receivables has been fully recognised and the outstanding balances of the Doubtful Loan and Account Receivables and Doubtful Other Receivables are nil as at 31 December 2023. The Auditors consider that in the absence of adequate supporting documents and explanation, they are unable to obtain sufficient and appropriate audit evidence to ascertain the recoverability of the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables for the reasons, included but not limited to: (i) they are unable to carry out effective confirmation procedures in relation to the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances as at 31 December 2023 for the purpose of their audit; and (ii) there is no sufficient financial and non-financial information on such customers, borrowers and counterparties to assess the financial position of these debtors so as to ascertain the recoverability of the Doubtful Loan and Account Receivables and Doubtful Other Receivables as at 31 December 2023 and hence the determination of the impairment loss recognised for the year ended 31 December 2023. In such circumstances, there are no other satisfactory alternative audit procedures that they could adopt to ascertain the recoverability of the Doubtful Loan and Account Receivables and Doubtful Other Receivables as at 31 December 2023 and also the determination of the impairment loss recognised for the year ended 31 December 2023 thereon. The Auditors have conducted relevant procedures and have confirmed and agreed with the Company's above views.

The directors are of the view that the Company has used reasonable endeavour to address the qualifications. Based on the above mentioned Alternatives, the directors have already identified suitable ways to resolve the issue during the year ending 31 December 2024. The management of the Company has consulted the Auditors that, if the completion of the Alternatives take place on or before 31 December 2024 as expected, the underlying issues leading to the qualifications will be resolved and thus, the qualifications will be removed during the year ended 31 December 2025. It was given to understand that since full provision for the impairment on the Doubtful Loan and Account Receivables and Doubtful Other Receivables had already been made during the year ended 31 December 2023, the qualification would only affect the amount and allocation of profit or loss on the impairment loss on Doubtful Loan and Account Receivables and Doubtful Other Receivables between the financial year ended 31 December 2023 and financial year ending 31 December 2024. The Auditors concur with the directors' view as described above and it is expected that the qualifications would only be on the year ending 31 December 2024 comparative figures on the consolidated financial statements for the year ending 31 December 2025 and thus, the qualification would then be removed and resolved for the year ending 31 December 2025 thereon.

**(ii) Limitation of scope on the opening balances and comparative figures**

The current Auditors of the Company were appointed as the auditors of the Company with effect from 30 November 2023. The consolidated financial statements of the Group for the year ended 31 December 2022, were audited by our another auditor who expressed an unmodified opinion with an emphasis of matter paragraph about the going concern basis on those consolidated financial statements on 31 December 2023.

As at 31 December 2022 and 31 December 2023, included in the Group's finance lease, loan and account receivables and other financial assets, there were balances with certain customers, borrowers and counterparties with an aggregate gross amount of approximately RMB156,088,000 and RMB166,025,668, respectively (the "Finance Lease, Loan and Account Receivables and Other Financial Assets"), and during the year ended 31 December 2023, related impairment losses/fair value losses with an aggregate amount to approximately RMB136,680,000 was recognised in the consolidated profit or loss for the year.

Though the Company has already made full impairment on the outstanding Finance Lease, Loan and Account Receivables and Other Financial Assets at the moment, other than taking legal actions against these customers, borrowers and counterparties, the directors are considering certain strategies (the "Strategies"), such as: (i) the directors are continuing to take a proactive approach in communicating with the customers, borrowers and counterparties in restructuring the outstanding balances with the customers, borrowers and counterparties so as to recover part of the debts from them; or (ii) the directors are considering to dispose the said receivables to third parties so as the recover part of the outstanding balances, if any. Thus, the directors consider that the issue will be resolved during the year ending 31 December 2024.

The Auditors have informed to the management of the Company that they are unable to obtain sufficient audit evidence regarding the balances with such customers, borrowers and counterparties for the reasons, included but not limited to: (i) they are unable to carry out effective confirmation procedures in relation to the outstanding Finance Lease, Loan and Account Receivables and Other Financial Assets balances as at 31 December 2022 and 31 December 2023 for the purpose of their audit; and (ii) there is not sufficient financial and non-financial information on such customers, borrowers and counterparties to assess the financial position of these debtors so as to ascertain the validity and accuracy of the carrying amounts of the Finance Lease, Loan and Account Receivables and Other Financial Assets and also the determination of the related impairment losses/fair value losses recognised for the year ended 31 December 2023. In such circumstances, there are no other satisfactory alternative audit procedures that they could adopt to ascertain the validity and accuracy of the carrying amounts of the Finance Lease, Loan and Account Receivables and Other Financial Assets as at 31 December 2022 and 31 December 2023 and also the determination of the related impairment losses/fair value losses recognised for the year ended 31 December 2023 thereon.

In such circumstances, after discussion with the Auditors, the Auditors consider that they are insufficient financial and non-financial information and were not able to obtain sufficient audit evidence to ascertain the validity and accuracy of the carrying amounts of the opening balances and comparative figures as at 31 December 2023 and also the determination of related impairment losses/fair value losses recognised for the year ended 31 December 2023 thereon.

The directors are of the view that the Company has used reasonable endeavour to address the qualifications. Based on the above mentioned Strategies, the directors have already identified ways to resolve the issue during the year ending 31 December 2024. The management of the Company has consulted the Auditors that, if the completion of the Strategies take place on or before 31 December 2024 as expected, the underlying issues leading to the qualifications will be resolved and thus, the qualifications will be removed during the year ended 31 December 2025. It was given to understand that since full provision for the impairment on the Finance Lease, Loan and Account Receivables and Other Financial Assets receivables had already been made during the year ended 31 December 2023, the qualification would only affect the amount and allocation of profit or loss on the impairment loss on Finance Lease, Loan and Account Receivables and Other Financial Assets receivables between the financial year ended 31 December 2023 and financial year ending 31 December 2024. The Auditors concur with the directors' view as described above and it is expected that the qualifications would only be on the year ending 31 December 2024 comparative figures on the consolidated financial statements for the year ending 31 December 2025 and thus, the qualification would then be removed and resolved during the year ending 31 December 2025 thereon.

**AUDIT COMMITTEE'S VIEW ON THE MODIFIED OPINION**

The audit committee of the Company (the "Audit Committee") had critically reviewed the basis for Disclaimer of Opinion of the Auditors and had also discussed with the Auditors relating to the Disclaimer of Opinion regarding the Multiple Uncertainties relating to Going Concern and Qualifications relating to Other Matters Identified.

After discussion with the Auditors, the Audit Committee consider that:

**(i) Disclaimer of Opinion — Multiple Uncertainties relating to Going Concern**

Audit Committee's view on whether the Company's measures and plans could address the underlying matters leading to the Multiple Uncertainties relating to Going Concern. The Auditors have informed the Audit Committee about their view regarding the basis of operating as a going concern, that due to the absence of sufficient appropriate audit evidence, especially the conclusion and finalisation of Scheme and Proposed Restructuring, the Auditors were unable to express their audit opinion whether the Group can continue to operate as a going concern. As abovementioned, the Multiple Uncertainties relating to Going Concern was mainly due to the Auditor' s concern as to whether the Company will be able to successfully implement the plans and measures mentioned in note 2(b) to the financial statements of this report. The Audit Committee had critically reviewed the Multiple Uncertainties relating to Going Concern, the management's position concerning the Multiple Uncertainties relating to Going Concern and measures taken by the Group for addressing the Multiple Uncertainties relating to Going Concern. After discussion with the directors of the Company, the Audit Committee concurred with the going concern basis and assumptions adopted in preparing the consolidated financial statements based on the reasons above. Accordingly, the Audit Committee agreed that it was appropriate to use a going concern assumption to prepare the consolidated financial statements for the year ended 31 December 2023. Moreover, the Audit Committee requested the management to take all necessary actions to address the uncertainties regarding going concern underlying the Multiple Uncertainties relating to Going Concern that no such Multiple Uncertainties relating to Going Concern will be made in the forthcoming audited financial statements.

The Audit Committee had also discussed with the Auditors regarding the financial position of the Group, measures and plans taken and to be taken by the Group, and considered the Auditor's rationale and understood their consideration in arriving their opinion. The Audit Committee had reviewed the consolidated financial statements for the year ended 31 December 2023 and is of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosures have been made.

**(ii) Other Matters Identified**

The Auditors have reported to and discussed with the Audit Committee in respect of the qualifications relating to Other Matters Identified.

The Audit Committee has also reviewed the relevant information provided by the Company's management concerning the qualifications relating to Other Matters Identified.

***Limitation of scope on the financial information regarding Receivables from certain customers, borrowers and counterparties***

The Audit Committee understood from the Auditors that they could not obtain sufficient audit evidence in respect of the outstanding balances of the Doubtful Loan and Account Receivables and Doubtful Other Receivables as at 31 December 2023 and determination of the impairment of the Loan and Account Receivables and Doubtful Other Receivables recognised for the year ended 31 December 2023. On the other hand, the Audit Committee noted that the Company's full impairment losses have been made during the year ended 31 December 2023 based on the best information available. Further, the qualification relating to Receivables from customers, borrowers and counterparties was mainly due to the Auditors was unable to obtain sufficient audit evidence to ascertain the validity, accuracy and credit assessments of the carrying amounts of the outstanding Doubtful Loan and Account Receivables and Doubtful Other Receivables balances as at 31 December 2023 and hence the determination of the related impairment losses recognised for the year ended 31 December 2023.

The Audit Committee concur with the view of the management that since full provision for the impairment on the Doubtful Loan and Account Receivables and Doubtful Other Receivables had already been made during the year ended 31 December 2023, the qualification would only affect the amount and allocation of profit or loss on the impairment loss on Doubtful Loan and Account Receivables and Doubtful Other Receivables between the financial year ended 31 December 2023 and financial year ending 31 December 2024. It is expected that the qualifications would only be on the year ending 31 December 2024 comparative figures on the consolidated financial statements for the year ending 31 December 2025 and thus, the qualification would then be removed and resolved during the year ending 31 December 2025 thereon.

After careful consideration, the Audit Committee concurred with the view of the Company's management while the Audit Committee also understood that the Auditor might have different view on the insufficient information regarding the impairment of the Loan and Account Receivables and Doubtful Other Receivables that has been recognised for the year ended 31 December 2023.

***Limitation of scope on the opening balances and comparative figures***

The Audit Committee understood from the Company's auditor that they are unable to obtain sufficient audit evidence in respect of the outstanding balances with certain customers, borrowers and counterparties as at 31 December 2022 and 31 December 2023 and related impairment losses/fair value losses with an aggregate that was recognised in the consolidated profit or loss for the year ended 31 December 2023.

The Audit Committee concur with the view of the management that since full provision for the impairment on the Finance Lease, Loan and Account Receivables and Other Financial Assets receivables had already been made during the year ended 31 December 2023, the qualification would only affect the amount and allocation of profit or loss on the impairment loss on Finance Lease, Loan and Account Receivables and Other Financial Assets receivables between the financial year ended 31 December 2023 and financial year ending 31 December 2024. It is expected that the qualification would only be on the year ending 31 December 2024 comparative figures on the consolidated financial statements for the year ending 31 December 2025 and thus, the qualification would then be removed and resolved during the year ending 31 December 2025 thereon.

After careful consideration, the Audit Committee concurred with the view of the Company's management while the Audit Committee also understood that the Auditor might have different view on the insufficient information regarding the impairment of the Finance Lease, Loan and Account Receivables and Other Financial Assets receivables that has been recognised for the year ended 31 December 2023.

The Audit Committee had reviewed the consolidated financial statements for the year ended 31 December 2023 and is of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosures have been made.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2023.

## CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 69 to 85 of this annual report.

## CORPORATE GOVERNANCE, ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

The Group is committed to the principles of good corporate governance, and strives to integrate corporate and social responsibility into its business strategy and management approach. Also, it is the Group's corporate and social responsibility in promoting a sustainable and environmentally friendly environment. Details of the Group's environmental, social and governance (the "ESG") policies and performance are set out in the "Environmental, Social and Governance Report" section of this annual report.

## AUDITOR

On 30 November 2023, BDO Limited resigned as the auditor of the Company as no consensus can be reached on the audit fee of the Company for the year ended 31 December 2023 and Yongtuo Fuson CPA Limited ("Yongtuo Fuson") were appointed as the auditors of the Company. Yongtuo Fuson is currently practising under the name of SFAI (HK) CPA Limited. A resolution will be submitted to the general meeting of the Company to reappoint SFAI (HK) CPA Limited.

By order of the Board of
**Differ Group Auto Limited**
**Ng Chi Chung**
*Chairman*

Hong Kong, 19 July 2024

# CORPORATE GOVERNANCE REPORT

The board of Directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2023.

## CORPORATE CULTURE

The Company has adopted, promoted and preserved a healthy corporate culture by which our directors, management and employees are bounded to strike for a sustainable development of the Company in a lawfully, ethically, and responsibly manner. Our culture is also about reaching a balance of benefits and risks of short terms goals with our long-term strategy.

The Board of the Directors has a collective responsibility for promoting robust corporate governance, at heart of which embedded with our corporate culture which has the following features.

- **Transparency**
  Our directors and management shall be moulded to make decisions and to conduct our business based on the best information available to them and shared among them.

- **Integrity and Objectivity**
  Our directors and management shall undertake to make decisions and to conduct our business with integrity and objectivity in the best interests of the Company and its shareholders.

- **Accountability**
  Our directors and management shall be rewarded commensurately by the performance of the Company under their decisions and actions.

The Board is satisfied that our corporate culture has been well promoted and preserved based on its review of a set of culture-related factors, such as compliance history, staff turnover rate, numbers of stakeholders' complaints and performance of the Company.

## CORPORATE GOVERNANCE PRACTICE

The Company is committed to establishing good corporate governance practices, procedures and fulfilling its responsibilities to its shareholders, protecting and enhancing shareholders' value. The Company's corporate governance practices are based on the principles and code provision as set out in the Code on Corporate Governance Practices ("CG code") in Appendix C1 to the Listing Rules.

Throughout the year ended 31 December 2023, the Company had complied with the CG Code with the exception from the deviation from the code provisions C.1.8 and C.2.1 (respectively relating to directors' insurance and segregation of chairman role) as explained below:

Under the code provision C.1.8, the Company should arrange appropriate insurance cover in respect of legal action against its directors. No insurance cover has been arranged for directors up to the date of this report since the directors take the view that the Company shall support directors arising from corporate activities.

Under the code provision C.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. However, the roles of the Company's chairman and CEO are both performed by Mr. Ng Chi Chung ("Mr. Ng"). Although the responsibilities of the chairman and the CEO are vested in one person, all major decisions are made in consultation with the members of the Board. There are three executive Directors, one non-executive Director and three independent non-executive Directors in the Board. The Board considers that there is sufficient balance of power and the current management maintains a strong management position of the Company. The Board also considers that the current structure can promote efficient formulation and implementation of the Company's strategies and explore business opportunities efficiently and promptly.

**Rule 13.49 and Code Provision D.1.3.**

Pursuant to Rule 13.49(1) of the Listing Rules, the Company was required to publish the annual results for the financial year ended 31 December 2023 (the "2023 Annual Results Announcement") on or before 31 March 2024.

As disclosed in the Company's announcements dated 28 March 2024, 17 April 2024, 10 May 2024, 31 May 2024 and 28 June 2024, amongst others, the auditors of the Company (the "Auditors") need more time to complete their audit procedures and collect all the necessary supporting documents, such as outstanding audit confirmations and the Company requires additional time to finalise the 2023 Annual Results Announcement. Under Rule 13.50 of the Listing Rules, trading for the Company's shares was suspended from 9:00 a.m. on 2 April 2024.

The 2023 Annual Results Announcement was published on 19 July 2024. Following the publication of the 2023 Annual Results Announcement as agreed by the Auditors, trading of the Company's shares resumed at 9:00 a.m. on 22 July 2024. The Board acknowledges that the delay in publication of the 2023 Annual Results constituted non-compliance with Rule 13.49(1).

As disclosed in the 2023 Annual Results Announcement, the Auditors have issued a disclaimer of opinion in their independent auditor's report. To avoid a lengthy explanation, the details and necessary information of "Disclaimer of opinion" and "Basis for disclaimer of opinion" from the independent auditor's report prepared by Yongtuo Fuson CPA Limited (currently practising under the name of SFAI (HK) CPA Limited) on the Group's consolidated financial statements for the year ended 31 December 2023 are set out in the section headed "Extract of Independent Auditor's Report" in the Directors' Report and the 2023 Annual Results Announcement.

**Management action plans to be implemented by the Company**

To avoid a lengthy explanation, the details of the management action plans to be implemented by the Company are set out in the section headed "MANAGEMENT VIEW AND ACTION PLANS TO BE IMPLEMENTED BY THE COMPANY IN RESPONSE TO THE AUDITOR'S MODIFIED OPINION" in the Directors' Report and the 2023 Annual Results Announcement.

## THE BOARD AND BOARD COMMITTEES

The Directors who held office during the year ended 31 December 2023 and as at the date of this report are as follows:

| | |
|---|---|
| Mr. Ng | Executive Director, Chief Executive Officer and Chairman |
| Dr. Feng Xiaogang | Executive Director |
| Mr. Tong Lu | Executive Director *(appointed on 15 May 2023)* |
| Mr. Kang Fuming | Non-executive Director |
| Mr. Xu Yiwei | Non-executive Director *(resigned on 4 June 2024)* |
| Mr. Chan Sing Nun | Independent non-executive Director |
| Mr. Lam Kit Lam | Independent non-executive Director |
| Mr. Chen Naike | Independent non-executive Director *(resigned on 15 May 2023)* |
| Ms. Chuang Yin Lam | Independent non-executive Director *(appointed on 15 May 2023)* |

The biographical details of all directors are set out under the section headed "Directors' and Senior Management Biographical Details" on pages 7 to 9.

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group. The Board sets the Group's values and standards and ensures that the requisite financial and human resources support are in place for the Group to achieve its objectives. The functions performed by the Board include but not limited to formulating the Group's business strategies, reviewing the Company's financial performance and results, deciding all significant financial and operational issues, monitoring and reviewing the Group's risk management, internal control system and corporate governance; and all other functions reserved to the Board under the Company's articles of association. In addition, the Board delegates to the Group's management certain functions include the implementation of general daily operation, strategies approved by the Board, the implementation of internal control procedures and ensuring of compliance with relevant requirements and other rules and regulations. All the Directors carry out their duties in good faith and in compliance with applicable laws and regulations, taking decisions objectively and acting in the interests of the Company and its shareholders at all times.

The Directors are required to disclose to the Board the number and nature of offices they hold in public companies or organizations and/or other significant commitments. The Board is of the view that all the Directors have devoted sufficient time and interest to the Company's affairs.

## CORPORATE GOVERNANCE FUNCTION

The Board confirms and undertakes the ultimate responsibilities for acting as the corporate governance function of the Company. With the assistance from the Audit Committee, the Remuneration Committee, and the Nomination Committee, the Board has performed and fulfilled the related corporate governance duties set out in the CG Code.

## CONFIRMATION OF INDEPENDENCE

During the year ended 31 December 2023, the Company has complied with Rules 3.10 and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive directors representing more than one-third of the Board and at least one of them has appropriate professional qualifications or accounting or related financial management expertise. All independent non-executive Directors also meet the guidelines for assessment of their independence. Each of the independent non-executive Directors has made an annual confirmation of independence and the Board is satisfied that all the independent non-executive Directors were independent and met the independent guidelines set out in Rule 3.13 of the Listing Rules, up to the date of the annual report.

## BOARD DIVERSITY POLICY

The board diversity policy aims to set out the Company's approach on the diversity of the Board. This policy applies to the Board. It does not apply to diversity in relation to the employees of the Company, nor the Board and the employees of any subsidiary of the Company.

### Policy Statement

The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. The Company believes that greater diversity of directors is good for corporate governance and is committed:

- To attract and retain candidate(s) for Board with a combination of competencies from the widest possible pool of available talent.

- To maintain a Board with diversity perspectives at all levels, in particular, those are aligning with the Company's strategy and objectives.

- To assess regularly the diversity profile of the Board and, where applicable, senior management prepared for Board positions under the succession planning of the Company and the progress on achieving diversity objectives, if any.

- To ensure that the selection and nomination of Board positions are appropriately structured so that a diverse range of candidates can be considered.

- To set up appropriate procedures for development of a broader and more diverse pool of skilled and experienced senior management that would be prepared for Board positions.

- To ensure that changes to the Board's composition can be managed without undue disruption.

The Board is satisfied with the overall board effectiveness of the Company based on its own annual review over the board diversity, independence, succession and performance.

The current board gender diversity has fulfilled the principle set out in Main Board Listing Rules Ch13.92. As for our workforce gender diversity, the Group has a gender ration of 52% (female): 48% (male). The Board considers that this gender ratio is commensurate with the business model and business development needs. The Board has set a target to maintain this ratio with a 5% reasonable deviations for the coming 2 years. Currently, there are no particular challenging factors or circumstances that may prevent us from achieving the target.

Implementation
The Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy. In reviewing and assessing the Board composition and the nomination of directors (as applicable), Board diversity has to be considered from a number of aspects, including but not limited to the following:

- Gender
- Age
- Cultural and educational background
- Ethnicity
- Professional qualifications
- Skills, knowledge and industry and regional experience
- Length of service

Measurable Objectives
The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth. The Nomination Committee will discuss and where necessary, agree on the measurable objectives for achieving diversity on the Board and make recommendation to the Board. The Board may adopt and/or amend from time to time (as applicable) such diversity perspectives and/or measurable objectives that are appropriate to the Company's business and Board succession planning, as applicable. The ultimate decision will be made based on the merits and contributions that the candidates can provide to the Company as well as taking into account the business model and specific needs of the Company from time to time.

The Nomination Committee will review this policy as appropriate and recommend revisions, if any, to the Board for consideration and approval.

The Board has reviewed its composition and is satisfied with its diversity that all Directors have, individually and collectively, contributed a reasonable spectrum of skills, experience and perspective.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Group's chairman and CEO are both performed by Mr. Ng. Although the responsibilities of the chairman and the CEO are vested in one person, all major decisions are made in consultation with the members of the Board. There are three executive Directors, one non-executive Director and three independent non-executive Directors in the Board. The Board considers that there is sufficient balance of power and the current management maintains a strong management position of the Company. The Board also considers that the current structure can promote efficient formulation and implementation of the Company's strategies and explore business opportunities efficiently and promptly.

There are no financial, business, family or other material/relevant relationship(s) among our Directors.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors of the Company is engaged on a service agreement with the Company for a term of three years. The Company has also issued a letter of appointment to each of the non-executive directors and independent non-executive directors for a term of three years. In accordance with Article 84 of the Company's Articles of Association, one-third of the directors for the time being shall retire from office by rotation provided that every director shall be subject to retirement at an annual general meeting ("AGM") at least once every three years. All of the retiring directors, being eligible, will offer themselves for re-election at the forthcoming AGM. Pursuant to the aforesaid provision of the Articles of Association, three directors of the Company shall retire at the forthcoming AGM of the Company and being eligible, will offer themselves for re-election at the meeting. The Company's circular will contain detailed information of the retiring directors pursuant to the Listing Rules.

## BOARD COMMITTEE

The Board has established three board committees, namely the audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee") of the Company, with written terms of reference which are available for viewing on the websites of the Company and the Stock Exchange to assist them in the efficient implementation of their functions. Specific responsibilities have been delegated to the above committees.

## DIRECTORS' ATTENDANCE RECORD

The Board meets regularly for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

During the year ended 31 December 2023, the Board held four regular board meetings which were held at approximately quarterly intervals and one general meeting, being 2022 AGM. The attendance of each Directors is as follows:

| | **Number of regular board meetings attended/held during the Director's tenure of office** | **Number of general meetings attended/held during the Director's tenure of office** |
|---|---|---|
| *Executive Directors:* | | |
| Mr. Ng Chi Chung | 4/4 | 1/1 |
| Dr. Feng Xiaogang | 4/4 | 1/1 |
| Mr. Tong Lu *(appointed on 15 May 2023)* | 3/3 | 1/1 |
| *Non-executive Directors:* | | |
| Mr. Kang Fuming | 4/4 | 1/1 |
| Mr. Xu Yiwei *(resigned on 4 June 2024)* | 4/4 | 1/1 |
| *Independent non-executive Directors:* | | |
| Mr. Chan Sing Nun | 4/4 | 1/1 |
| Mr. Lam Kit Lam | 4/4 | 0/1 |
| Mr. Chen Naike *(resigned on 15 May 2023)* | 1/1 | 0/0 |
| Ms. Chuang Yin Lam *(appointed on 15 May 2023)* | 3/3 | 1/1 |

There were no additional board meetings held for normal course of business during the year with the presence of all executive Directors. Apart from the said meetings, matters requiring Board approval were arranged by means of circulation of written resolutions of Board members. The Board is provided with relevant materials in relation to the matters brought before the meetings. Reasonable notices of meetings are given to the Directors and the Directors are encouraged to propose new items as any other business for discussion at the meetings. Minutes are kept by the company secretary and are open for inspections by all Directors at any reasonable time. Procedures for convening meetings of the Board and Board committees and preparing minutes of the meetings have complied with the requirements of the Articles of Association of the Company and applicable rules and regulations.

## AUDIT COMMITTEE

The Board has established the Audit Committee with written terms of reference on 26 November 2013, which was latest updated on 31 December 2018 in compliance with the CG code's and relevant listing rules requirements. The Audit Committee also serves and fulfils its duties as corporate governance function of the Company in accordance with the updated terms of reference. As at 31 December 2023, the Audit Committee consists of two independent non-executive Directors, namely Mr. Chan Sing Nun and Mr. Lam Kit Lam and one non-executive Director namely, Mr. Kang Fuming. Mr. Chan Sing Nun is the chairman of the Audit Committee.

The main duties of the Audit Committee include, among others:

- monitoring the integrity of the Company's financial statements, interim and annual financial reports, and to review significant financial reporting judgments and accounting policies contained in them;

- responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor;

- reporting the finding and recommendations to the Board on a regular basis;

- reviewing and examining the compliance and corporate governance policies, code of conduct and the effectiveness of risk management and internal control systems; and

- reviewing the compliance with the CG code and disclosure in this Corporate Governance report.

During the year ended 31 December 2023, the Audit Committee (1) reviewed the Group's annual and interim reports and result announcements, the related accounting principles and practices adopted by the Group and provided advice and comments thereon; (2) made recommendations to the Board and the management in respect of the Group's financial reporting, risk management and internal control procedures; and (3) reviewed the Group's discloseable and connected transactions. The Audit Committee held four meetings during the year and the attendance of each member is as follows:

| | **Member of Audit Committee Meeting attended/held during the committee member's tenure of office** |
|---|---:|
| Mr. Chan Sing Nun | 4/4 |
| Mr. Lam Kit Lam | 4/4 |
| Mr. Kang Fuming | 4/4 |

## REMUNERATION COMMITTEE

The Board has established the Remuneration Committee with written terms of reference on 26 November 2013, which was latest updated on 30 December 2022 in compliance with the CG code's and relevant listing rules requirements. As at 31 December 2023, the Remuneration Committee consists of two independent non-executive Directors, namely Mr. Lam Kit Lam and Mr. Chan Sing Nun and one executive Director, namely Mr. Ng Chi Chung. Mr. Lam Kit Lam is the chairman of the Remuneration Committee.

The main duties of the Remuneration Committee include, among others:

– formulating remuneration policy for approval by the Board, which shall take into consideration factors such as salaries paid by comparable companies, time commitment, employment conditions, and responsibilities, and individual performance of the Directors, senior management, and the general staff;

– ensuring none of the Directors determine their own remuneration.

During the year ended 31 December 2023, the Remuneration Committee reviewed and made recommendation on the remuneration package of Directors and senior management of the Group and assessed the performance of executive Directors. The Remuneration Committee held 2 meetings during the year and attendance of each member is as follows:

| | **Number of Remuneration Committee Meeting attended/held during the committee member's tenure of office** |
|---|---|
| Mr. Lam Kit Lam | 2/2 |
| Mr. Chan Sing Nun | 2/2 |
| Mr. Ng Chi Chung | 2/2 |

## NOMINATION COMMITTEE

The Board has established the Nomination Committee with written terms of reference on 26 November 2013, which was latest updated on 31 December 2018 in compliance with the CG code's and relevant listing rules requirements. As at 31 December 2023, the Nomination Committee consists of two independent non-executive Directors, namely Mr. Lam Kit Lam and Mr. Chan Sing Nun and one executive Director, namely Mr. Ng Chi Chung. Mr. Ng Chi Chung is the chairman of the Nomination Committee.

The main duties of the Nomination Committee include, among others:

– reviewing the structure, size and composition of the Board;

– make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors;

– identify suitable and qualified individuals to become Board members.

During the year ended 31 December 2023, the Nomination Committee reviewed and discussed the structure, size and composition of the Board; made recommendation on the reappointment of Directors; and confirmed the independence of the independent non-executive Directors. The Nomination Committee held 2 meeting during the year and the attendance of each member is as follows:

| | Number of Nomination Committee Meeting attended/held during the committee member's tenure of office |
|---|---|
| Mr. Ng Chi Chung | 2/2 |
| Mr. Chan Sing Nun | 2/2 |
| Mr. Lam Kit Lam | 2/2 |

**NOMINATION POLICY**

The Nomination Policy aims to set out the criteria and process in the nomination and appointment of directors of the Company; to advise the Board in relation to appointment of directors; ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of Company; and ensure the Board continuity and appropriate leadership at Board level. This policy applies to the directors of the Company and where applicable, senior management prepared for Board positions under the succession planning of the Company.

The Board has delegated its responsibilities and authority for selection and appointment of directors of the Company to the Nomination Committee of the Company. Without prejudice to the authority and duties of the Nomination Committee as set out in its terms of reference, the ultimate responsibility for selection and appointment of directors of the Company rests with the entire Board.

Nomination and Appointment of Directors

*Criteria:*

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- Character and integrity.
- Qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the board diversity policy that are relevant to the Company's business and corporate strategy.
- Any measurable objectives adopted for achieving diversity on the Board.

- Requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules.

- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity.

- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company.

- Sufficiency of time to be devoted to the Company.

- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

- the considerations listed out in our Board Diversity policy.

Nomination Process

*(a) Appointment of New Director*

(i) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(ii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(iii) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

(iv) For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

*(b) Re-election of Director at General Meeting*

(i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

The Nomination Committee will keep monitoring and conduct regular review on the diversity, structure, size and composition of the Board and this policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs and reflects both current regulatory requirements and good corporate governance practice.

**DIVIDEND POLICY**

The Company has a dividend policy.

The declaration of future dividends will be subject to the recommendation by the Board at its discretion in accordance with the Articles of Association and will depend on a number of factors, including market conditions, strategic plans and prospects, business opportunities, financial condition and operating results, working capital requirements and anticipated cash needs, statutory and contractual restrictions on the payment of dividends and other factors that the Board considers relevant.

## INSIDE INFORMATION DISCLOSURE

The Company has established an inside information policy pursuant to the Part XIVA of the Securities and Futures Ordinance. The key provisions of the policy include:

1. The Directors shall establish effective procedures to identify and report potential inside information to the Board from time to time.

2. The Directors shall perform an evaluation of the information and document the evaluation process and result.

3. The Directors, senior management and any persons who might have access to the inside information shall implement precaution measures in relation to the confidentiality of unpublished inside information.

4. The Directors, senior management and any persons who have access to the inside information shall not to deal in the Company's securities when they are in possession of unpublished inside information.

5. The Directors shall ensure timely, fair and comprehensive dissemination of inside information, in principle of maintaining a fair and informed market, including issuing announcements and/or requesting trading halt in situation of unexpected and significant event.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code for securities transactions by Directors of listed issuers as set out in Appendix C3 to the Listing Rules as its code of conduct regarding securities transactions of Directors. The Company has also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the year ended 31 December 2023.

## AUDITOR'S STATEMENT AND THEIR REMUNERATION

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

The remuneration of the Company's external auditor, Yongtuo Fuson CPA Limited (currently practising under the name of SFAI (HK) CPA Limited), in respect of audit services for the year ended 31 December 2023 amounted to approximately RMB1,350,000. The Audit Committee has assessed and satisfied with the independence of our external auditor.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining a sound and effective risk management and internal control system in order to safeguard the interests of the shareholders, ensuring maintenance of proper books and records for the provision of reliable financial information, and ensuring compliance with the relevant rules and regulations.

During the year, the Board has delegated key management functions, duties, and limited authority to management at appropriate level. The management is charged with a duty to identify, manage, and monitor the affairs of their delegated areas and to establish relevant internal controls while they are also charged with a duty to report the performance to the members of the Board on a timely basis.

The senior management of the Company prepare report to the Directors and the Company's Audit Committee on a regular basis containing (1) consolidated financial statements, (2) business performance analysis, (3) material events and transaction (such as takeovers and mergers, change of key personnel and shareholders), (4) financial information of major subsidiaries, (5) information of related party transactions, connected transactions and notifiable transactions, and (6) compliance status in our businesses.

Members of the Board are individually and collectively responsible for reviewing the information due diligently, making meaningful enquires of the performance of the Company and taking proper follow-up actions.

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. Save as stated in the sub-section headed "Rule 13.49 and Code Provision D.1.3.", under the section headed "Corporate Governance Practice" in the Corporate Governance Report, the Directors ensure the timely publication of such financial statements. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The statement of the external auditors of the Company, Yongtuo Fuson CPA Limited (currently practising under the name of SFAI (HK) CPA Limited), with regard to their reporting responsibilities on the Company's financial statements is set out in the section headed "Independent Auditor's Report" in this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, save as disclosed in the financial statements, they are not aware of any material uncertainties relating to the events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Company's annual results announcement dated 19 July 2024 and the Corporate Governance Report also included an additional statement detailing the management's action plans to address going concern issues.

The Company currently does not have an internal audit department, and has engaged an independent professional internal control consulting firm ("Internal Control Reviewer") to review the Group's internal control system, policy and procedures and report to the Audit Committee their findings and recommendations. The Board has reviewed the need for an internal audit function and is of the view that in light of the size and nature of the business of the Group, instead of setting up an internal audit department, it would be more cost effective to appoint external independent professionals to perform independent carry and evaluation to the internal control systems, and the risk management system of the Group on an on-going basis. The Board will review at least annually the need for setting up an internal audit function.

The Board concluded that in general, though enhancements are required in certain areas that need to be taken for further improvements, the Group's risk management and internal control system is effective and adequate. Such system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board will continue to assess the effectiveness of risk management and internal controls by considering reviews and recommendations made by the audit committee, senior management and Internal Control Reviewer.

## WHISTLE-BLOWING SYSTEM

By our anti-corruption policy and code of conduct, we prohibit all kinds of fraudulent acts, including corruption, serious regulatory breaches, and management collusion and override. We will take disciplinary actions against those who violate the requirements and principles set out in our policy or by the applicable laws and regulations.

In accordance with our whistle blowing policy, the Company undertakes to design and implement a whistle blower system that has the following features:

- We accept whistle blower reports from all kinds of stakeholders, including customers, suppliers, employees and investors.
- We accept whistle blower reports in confidence and anonymity.
- We charged the oversight function of whistle blower system to the Audit Committee.
- We promise to protect all good-will whistle blower from act of discrimination or retaliation.
- We promise to take appropriate investigation or follow-up actions for all good will whistle blower reports.

Stakeholders are encouraged to file their reports to our registered office in Hong Kong. Their report shall be filed in address to our Chairman of the Board or the Chairman of Audit Committee.

## TRAINING AND CONTINUING DEVELOPMENT FOR DIRECTORS

The Group provides continuing briefings and professional development to the Directors to update on the latest development in relation to the Listing Rules and other applicable regulatory requirements as well as the Group's business and governance policies.

During the year ended 31 December 2023, all Directors participated in the continuous professional developments in relation to regulatory update, the duties and responsibility of the Directors and the business of the Group including reading materials in relation to regulatory update and/or attending training course to develop professional skills. The relevant details are set out below:

| | **Reading and/or online studying** | **Seminars and/or workshop** |
|---|---|---|
| *Executive Directors:* | | |
| Mr. Ng Chi Chung | ✓ | ✓ |
| Dr. Feng Xiaogang | ✓ | ✓ |
| Mr. Tong Lu *(appointed on 15 May 2023)* | ✓ | ✓ |
| *Non-executive Directors:* | | |
| Mr. Kang Fuming | ✓ | ✓ |
| Mr. Xu Yiwei *(resigned on 4 June 2024)* | ✓ | ✓ |
| *Independent non-executive Directors:* | | |
| Mr. Chan Sing Nun | ✓ | ✓ |
| Mr. Lam Kit Lam | ✓ | ✓ |
| Mr. Chen Naike *(resigned on 15 May 2023)* | | |
| Ms. Chuang Yin Lam *(appointed on 15 May 2023)* | ✓ | ✓ |

## COMPANY SECRETARY

The Company Secretary of the Company, Mr. Ko Leong, is also the Authorized Representative of the Company. During the year, he has received no less than 15 hours of continuous professional development training accredited by various professional associations in compliance with Main Board Listing Rules 3.29.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparation of the consolidated financial statements for the financial year ended 31 December 2023, which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows for the year then ended and properly prepared on going concern basis in accordance with the applicable statutory requirements and accounting standards.

## SHAREHOLDERS' RIGHT AND COMMUNICATION

The Board and management are dedicated to meeting and communicating with shareholders at the annual general meeting of the Group. Our Chairman of the board, Chief Executive Officer and senior management will attend the annual general meeting of the Group to answer questions of shareholders.

Notice of the annual general meeting is sent to the shareholders at least 21 clear days and not less than 20 clear business days before the holding of the annual general meeting. All other general meetings (including extraordinary general meeting) must be called by Notice of not less than fourteen (14) clear days and not less than ten (10) business days.

There are no provisions in the Companies Law of the Cayman Islands (amended in 2018) or in the Articles of Association allowing shareholders to propose new resolutions at shareholders' meetings. Shareholders who wish to propose a resolution may request the company to convene a shareholders' meeting in accordance with the procedures prescribed in the preceding paragraph.

Regarding nominations for directors by shareholders, please refer to Shareholders' Nomination Procedures for Directors Candidates on the Company website.

Shareholders may send their inquiries and concerns to the Company's principal place of business in Hong Kong in writing at any time.

In accordance with Article 58 of the articles of association of the Company, shareholders holding not less than 10% of the paid up capital of the Company can convene an extraordinary general meeting by written requisition to the Board or the secretary of the Company. In addition, shareholders can raise any questions relating to published information and latest strategic plan of the Group with the Directors. Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings.

## INVESTOR RELATIONS

The Company has maintained various communication channels with its shareholders and the investment public to ensure that they are kept abreast of the Company's latest news and development. The Company updates its shareholders on its development, financial results and major events through its annual and interim reports. All published information is promptly uploaded to the website of the Company at www.dfh.cn.

Shareholders can also submit enquires to the management and send proposals to be put forward at shareholders' meeting to the Board or senior management by sending emails to pr@dfh.cn or making phone calls to our investor relations team at +852 2619 9924. In addition, the Company's dedicated investor relations team takes a proactive approach to communicate with existing and potential investors in a timely manner by making regular face-to-face meetings and conference calls with investors.

During the year ended 31 December 2023, there were amendments to the Memorandum and Articles of Association of the Company, among other things, bring the Memorandum and Articles of Association in alignment with the core shareholder protection standards set out in Appendix A1 of the Listing Rules as well as the applicable laws of Cayman Islands. Latest Company's constitutional documents is also available on the Company's website and the Stock Exchange's website.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

Differ Group Auto Limited (the "Company", "Differ" or "we") is pleased to publish its eighth environmental, social and governance ("ESG") report (the "Report"). This Report demonstrates our commitments, efforts, and progress with respect to ESG-related issues in our businesses, from assets management services to automobile e-commerce.

By integrating ESG principles into strategic planning and daily operations, the Company's vision of establishing a more sustainable business to maintain its competitive edge has been realised, with a focus on strengthening its deep ties with stakeholders and providing long-term value to them.

### Scope of the Report

This Report covers the ESG management and the corresponding performance of the Company for the period of 1 January 2023 to 31 December 2023 (the "Reporting Period", or "2023"). It includes its major subsidiaries (collectively, the "Group") in Jingning, Longquan, Nan'an, Weihai, Xiamen, Tianjin, Lishui of the People's Republic of China ("PRC") and Hong Kong. The reporting boundary has changed from the preceding ESG report because the Lishui subsidiary was newly added to the Group in October 2023.

### Reporting Standard

This Report has been prepared in accordance with the "Mandatory Disclosure Requirements" and the "Comply or Explain" provisions of the Environmental, Social and Governance Reporting Guide ("ESG Reporting Guide") in Appendix C2 to the Rules Governing the Listing of Securities, as set out by The Stock Exchange of Hong Kong Limited ("HKEx").

### Reporting Principles

This Report aims to illustrate the ESG performance of the Group in a comprehensive, accurate and just manner, strictly adhering to the four reporting principles of materiality, quantitative, balance and consistency stipulated in the ESG Reporting Guide:

- "**Materiality**" – Through the support of the stakeholder engagement and the materiality assessment, Differ has identified its material issues during the Reporting Period. This Report is structured based on the materiality of ESG issues related to the Group. For further details, please refer to the subsections of "Stakeholder Engagement" and "Materiality Assessment" under the section titled "Sustainability Governance" of this Report.

- "**Quantitative**" – The Group made quantitative disclosures of the applicable key performance indicators ("KPIs") set out in the ESG Reporting Guide. Environmental targets are also disclosed to demonstrate the business impacts, ESG performance and commitments of the Group. Whenever applicable, relevant standards, methods, hypotheses, and sources for the calculation of the quantitative KPIs are further disclosed under the "KPIs Summary" section.

- "**Balance**" – All information provided in this Report is based on the Group's policies, documents and practices. It presents an unbiased representation of our ESG management approach and performance and avoids misleading omissions.

- "**Consistency**" – Whenever deemed material, this Report provides explanations of any inconsistencies to previous reports.

This Report has been reviewed and approved by the board of directors (the "Board") of the Company.

**Contact & Feedback**

We highly value your feedback on this Report and on the Group's overall ESG performance. You are welcome to write to the following address if you would like to share any comments or suggestions:

- Unit 2105 on 21/F of West Tower Shun Tak Centre, Nos. 168–200 Connaught Road Central, Hong Kong
- Email: pr@dfh.cn

## SUSTAINABILITY GOVERNANCE

### Management Responsibilities

The Group is committed to maintaining a high standard of sustainability governance across its operations. The Board assumes the main responsibilities to set out the overall direction for the Group's ESG management, and to incorporate ESG considerations as part of the business decision-making process. Climate-related risks and opportunities are also taken into consideration when refining the business strategy of the Group. The Board meets regularly to review the financial and operating performance, as well as consider and approve ESG-related policies of the Company. Additional meetings are held to discuss and resolve significant or important matters.

Besides, the Board evaluates the materiality of the Group's identified ESG risks and monitors the progress of its ESG- related targets and initiatives. By doing so, Differ is dedicated to protecting and enhancing the well-being of its staff, the community and the environment. The comprehensive ESG management structure in place ensures the Group can fulfil its commitments and meet the expectations from stakeholder groups.

In order to maintain a sound and effective internal control system, the Board has delegated key management functions, duties, and limited authority to the management at the appropriate level. The management is charged with a duty to identify, manage, and monitor affairs of their delegated areas and to establish relevant internal controls. They are also charged with a duty to report the ESG performance to the Board on a timely basis.

The Company has also set up a Corporate Governance Working Committee that is composed of senior management members of the Group. The Corporate Governance Working Committee is responsible for managing the compliance status of all its businesses, and regularly reports to the Board and the Audit Committee. Members of the Board are individually and collectively responsible for reviewing the relevant information due diligently, making meaningful inquiries of the performance of the Company and taking proper follow-up actions. For further details regarding the responsibilities of the Corporate Governance Working Committee, please refer to the Corporate Governance Report of this Annual Report.

**Stakeholder Engagement**

Differ proactively makes efforts to communicate with its stakeholders as it acknowledges that a sustainable business operation is inseparable from understanding stakeholders' concerns and expectations. During the Reporting Period, we have updated our communication channels, so as to ensure our stakeholders can be kept abreast of the Company's latest news and developments, and our ESG practices and approaches can meet their expectations. By identifying and discussing ESG-related risks and opportunities with different stakeholder groups, we believe our proactive engagement strategy enables us to maintain the interaction with key stakeholders, facilitating the sustainable development of the Group. In the future, we will continue to explore and adopt new communication methods to actively connect with our stakeholders.

The following tables list the key stakeholder groups of Differ and the corresponding communication channels:

| Investors and shareholders | Customers |
|---|---|
| • Company website<br>• Company's announcements<br>• Annual general meeting<br>• Annual and interim reports | • Company website<br>• Direct communication with customers<br>• Customer feedback and complaints<br>• Customer satisfaction surveys |

**Employees**

- Training and orientation
- Email and opinion box
- Regular meetings
- Employee performance evaluation
- Employee activities

**Suppliers and business partner**

- Company website
- Direct communication with suppliers and business partners

**Media**

- Company website
- Company's announcements

**Communities**

- Company website
- Community activities

**Government authorities and regulators**

- Documented information submission
- Compliance inspections and checks
- Regular meetings/luncheons with local government representative
- Forums, conferences and workshops

**Materiality Assessment**

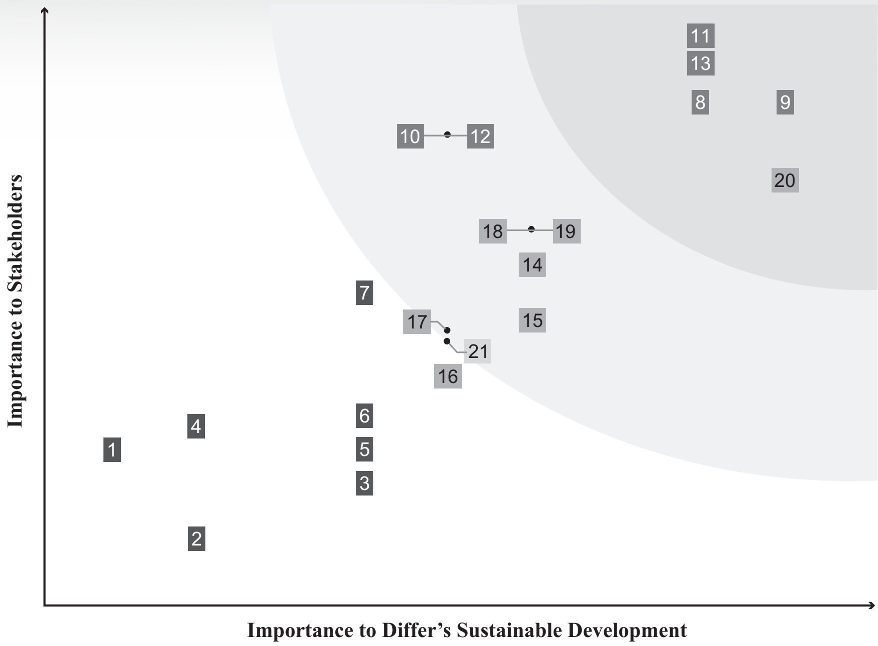
The concerns and expectations from the Group's stakeholders are invaluable to develop its ESG strategy and assess its approach to sustainability. In order to systematically identify and manage ESG issues that are material and relevant to the Group, an independent consultant was entrusted to conduct a materiality assessment during the Reporting Period.

By analysing the findings from the materiality assessment, the Group is able to identify and integrate material issues into its sustainability strategy and ESG management, so as to facilitate the Group's sustainable development and meet the stakeholders' expectations. More details are shown below.

| Phase | Actions |
|---|---|
| **Phase 1**<br>**Identification** | A list consisting of potential ESG topics was identified based on the following sources:<br>• Previous ESG reports of the Group<br>• ESG reports of industry peers<br>• Global Reporting Initiative ("GRI") Standards<br>The criteria to identify material ESG issues include whether the issue has a significant impact on stakeholders' assessment and decisions, and whether it reflects the Group's material environmental and social impact. Using the said criteria, 21 topics categorised into four aspects were identified for the materiality assessment. |
| **Phase 2**<br>**Prioritisation** | The identified issues were included in an online questionnaire. We distributed the standardised questionnaire to different stakeholder groups to ensure a consistent and systematic assessment of material issues.<br>11 board and management members were invited to score the material issues based on the "significance to Differ's sustainable development". 22 other stakeholders, including employees, customers, and suppliers, were invited to score the material issues based on the "significance to stakeholders". |

| Phase | Actions |
|---|---|
| Phase 3 Analysis | The collected feedback was analysed and plotted in a materiality matrix to reflect the materiality of the ESG issues for the Group. Issues which fell in the upper right corner of the materiality matrix were defined as the topics that matter the most to both the Group and its stakeholders. Issues in the lower left corner of the materiality matrix were defined as the relatively less important topics to both the Group and its stakeholders.<br><br>The results from the assessment will also be reviewed and considered for ESG performance improvement in the future. |
| Phase 4 Validation and Review | The Group's management confirmed and validated the material issues list disclosed in this Report. The Board reviewed the material issues identified and the results of the materiality assessment to ensure that they are relevant and important to the Company and its stakeholders. |

Below is the materiality matrix based on the received responses and analysed results. It reflects the prioritisation of material ESG issues based on their significance to the Group's business and operation (represented by the Board and the management) and to stakeholders (represented by employees, customers, and suppliers).




| Aspect | Item No. | Issue |
|---|---|---|
| Environmental Stewardship | 1 | Emissions control |
| | 2 | Climate change |
| | 3 | Energy efficiency |
| | 4 | Water resource management |
| | 5 | Materials consumption |
| | 6 | Waste management |
| | 7 | Green office |
| People Management | 8 | Labour rights |
| | 9 | Employee relations |
| | 10 | Diversity, equal opportunities and anti-discrimination |
| | 11 | Occupational health and safety |
| | 12 | Training and development |
| | 13 | Child and forced labour prevention |
| Operational Excellence | 14 | Customer service and satisfaction |
| | 15 | Customer health and safety |
| | 16 | Ethical product and service marketing |
| | 17 | Intellectual property rights |
| | 18 | Customer privacy and data protection |
| | 19 | Responsible supply chain management |
| | 20 | Anti-corruption |
| Community Development | 21 | Community engagement |

According to the results of the materiality matrix, 'Labour rights', 'Employee relations', 'Occupational health and safety', and 'Child and forced labour prevention' under the aspect of People Management, as well as 'Anti-corruption' under the aspect of Operational Excellence have been identified as the most material ESG issues to the Group. The structure of this Report will be determined by the deduced materiality ranking of the four aspects, which is as follows: People Management, Operational Excellence, Community Development and Environmental Stewardship. The Group will elaborate on its policies, initiatives, performance and progress during the Reporting Period in relation to material issues in this Report. Moving forward, the Group will continue to keep open dialogues with key stakeholders and monitor material issues to strengthen its ESG management.

## PEOPLE MANAGEMENT

### Occupational Health and Safety

Differ always regards its employees as valuable assets and is dedicated to providing them with a healthy, comfortable and safe working environment that they can thrive in. In accordance with the Occupational Safety and Health Ordinance (Cap. 509 of the Laws of Hong Kong) and other relevant laws and regulations, the Company actively pioneers ways to guide its employees to adopt appropriate health and safety practices in the workplace.

Under the Health, Safety, Environment and Workspace Condition Policy formulated by the Group, a series of standards and measures relating to workplace hygiene and safety have been implemented to eliminate potential safety hazards and protect employees' wellbeing, such as:

- Eye-catching safety signs are displayed on machineries and equipment with high safety risks to remind workers;
- Personal protection equipment is distributed to those who are exposed to potential occupational risks to safeguard their physical health;
- Epidemic prevention supplies, including face masks and rapid antigen testing kits are offered to all employees in response to the pandemic.

Before signing the employment contract, all employees will be informed of the potential occupational hazards and dangers they may face in their work. We will also educate them on corresponding precautions to strengthen their perception towards hazards and their understanding of remedial measures, thus maintaining the record of zero injuries. Additionally, regular fire drills are organised to familiarise employees with evacuation routes and the locations of fire extinguishers. As a result, employees can acquire specific knowledge of emergency rescue matters and be prepared to respond quickly in the event of a fire.

During the Reporting Period, the Group was not aware of any material non-compliance with laws and regulations relating to the safety of our working environment and protection of our employees from occupational hazards in both Hong Kong and Mainland China. Furthermore, there were neither work-related fatalities nor lost days due to work injury cases in each of the past three years including the Reporting Period.

**Child and Forced Labour Prevention**

Any form of forced labour or child labour is prohibited by the Group. Differ strictly follows material labour laws and national regulations that have a significant impact on the Group, including Provisions on the Prohibition of Using Child Labour, the Law on the Protection of Minors of the PRC, and the Labour Law of the PRC.

As a socially responsible corporate, Differ realises it has the responsibility to establish a sound system for protecting the rights of children and workers. With reference to the aforementioned laws and regulations, the Group has formulated its Anti-Child and Underage Labour Policy, as well as the Anti-Forced Labour Policy, which helps to maintain a safe, respectful and harmonious work environment.

During the recruitment process, the Group checks all job applicants' identity card or certification for rigorous screening prior to hiring, so as to eliminate the risk of hiring child labour. Background information is also thoroughly examined to ensure its accuracy and legitimacy in order to avoid violating labour laws and regulations. In the unlikely event that a forged document is discovered resulting in the employment of underaged workers, the Group will not hesitate to terminate the contract and take legal action against the responsible personnel immediately.

Furthermore, Differ is dedicated to cultivating a company-wide culture that promotes and upholds the importance of work-life balance. The office employees have set a work schedule of five days per week to ensure they have sufficient personal time to rest. Normally, employees are not encouraged to work beyond our fixed working hours. If employees are required to extend their working hours due to business needs during peak seasons, they need to obtain prior approval from the management, and their overtime hours will be compensated.

Our commitment to preventing child labour and forced labour also extends to our supply chain. The termination of contracts with suppliers will be enacted if any violations of related laws and regulations are discovered. During the Reporting Period, the Group did not encounter any non-compliance cases relating to the labour standard of working hours, rest periods, and child and forced labour prevention.

**Employee Relations**

The Company places high importance on the physical and mental health of its staff and the maintenance of good staff relations. We always encourage our staff to relax after work and invite them to participate in the leisure activities organised by the Group. During the Reporting Period, we have strengthened employee engagement and enhanced team cohesion through diverse recreational and team-bonding activities, such as birthday parties, sports day, Lunar New Year celebrations, International Women's Day activities, Dragon Boat Festival events, orientation and Thanksgiving activities. All these activities have helped us to cultivate a work-life balance culture and foster a sense of belonging to the Group.

In addition to balancing work and personal life, Differ pays close attention to fostering a family-friendly working environment, so as to enhance the job satisfaction and a sense of belonging of employees. We encourage our employees to invite their family members to participate in our team building activities, thus allowing employees to better balance their work commitments with their family responsibilities.

**Labour Rights**

The Group believes in the importance of providing its employees with a quality working environment free of discrimination and mistreatment. We are committed to responding to the needs and concerns of our employees, as well as respecting their rights and interests. Guided by the Labor Contract Law of the PRC, the Employment Promotion Law of the PRC and the Employment Ordinance (Cap. 57 of the Laws of Hong Kong), the human resources policies are regularly reviewed to ensure they are up-to-date and effective. The Code of Conduct formulated by the Group clearly stipulates the ethical standards and labour rights that employees should abide by.

**Build a Fair & Equal Workplace**

- Treat employees with respect and dignity
- Forbid physical and mental abuse to staff
- Maintain an equal and discrimination-free workplace

**Protect Labour Rights**

- Respect freedom of association
- Prohibit inhumane exemplary measures and intimidation

**Environmental Conservation**

- Adopt mitigation practices
- Establish a comprehensive environmental management system
- Promote resources saving by adopting the 4R Principle

**Ethics and Integrity**

- Avoid conflicts of interests
- Enforce the Anti-corruption Policy and relevant measures
- Implement a systematic documentation system

As an equal opportunity employer, Differ does not allow any form of discriminatory behavior. In order to create an equal and fair workplace, we adhere to high standards of fairness in our recruitment, promotion, performance evaluation, and payroll decision-making processes. During the hiring process, we only assess candidates based on their experiences, capabilities and qualifications. All job applicants and employees are treated equally regardless of their race and religion, gender, age, marital status, pregnancy, disability status or other forms of difference that are unrelated to the job requirements.

Meanwhile, the Group periodically reviews its remuneration plans and compares it with the market conditions and industry benchmarks, aiming to recruit and retain outstanding talents. The competitive compensation package adopts a performance-based approach to motivate employees to perform the best of their capabilities whilst producing quality work. Specifically, our comprehensive responsible employment practices include:

- Employee performance is evaluated every year;
- Bonuses and service awards are given to high-caliber employees;
- All employees are entitled to paid leaves (including annual leave, sick leave, maternity and paternity leave, marriage leave, breastfeeding leave and compassionate leave);
- Both Hong Kong and Chinese employees are secured with mandatory provident fund and social welfare schemes respectively.

Besides, we strictly prohibit all forms of physical and psychological abuse, including violence, humiliation, detention, and threats. The Group spares no efforts to protect its workers' rights as it acknowledges that mutual respect is fundamental to maintaining a harmonious work environment. Employees are encouraged to report anonymously, verbally or in written form, to the management in case of any unsatisfactory treatments or suspected abuse cases. Prompt investigation and remediation of such instances will be taken within a week.

During the Reporting Period, there was no non-compliance with relevant laws and regulations that have had a significant impact on the Group concerning compensation and dismissal, recruitment and promotion, equal opportunities, diversity, anti-discrimination, and other benefits and welfare.

**Training and Development**

Being innovative and having unique insights are the key ingredients to stand out in this highly competitive industry, and this requires an advanced and intuitive understanding of the industry. There is no doubt that the professional development of employees is inextricably linked to the Group's ongoing business expansion and long-term success. Thereby, we always encourage our employees to voice their ideas and share their opinions with us. Rewards will be offered to incentivise employees in bringing practical and innovative ideas to the light, which also helps the Group to attract and retain talented individuals.

Differ provides a wide range of skill enhancement training programmes to create opportunities for employees' long-term career growth. We strive to build up a platform which allows all employees to develop their skills and capabilities to enable them to reach their full potential and achieve personal growth through continuous professional development.

In order to systematically standardise and manage our training, the Training Management Procedure has been formulated and established. A "SMART" strategy is adopted in the process of drafting the annual training plan, whereby training outcomes must be "Specific, Measurable, Attainable, Relevant and Time-bound". Information gathered based on the department's needs is also considered during the planning phase, which includes the internal and external vocational coaching stage. After discussions with supervisors, the annual training plan is enacted, and will be evaluated at the end of the year.


During the Reporting Period, a host of training programmes have been organised according to both corporate operational and employee development needs. Our training topics include engineering professional skills, corporate culture and principle, orientation, sales skills, etc. Besides, the Group has also invited experienced in-house staff as training mentors to share their experiences and the latest market trends from time to time to broaden the horizons of its staff. Written exams are used to fairly and transparently assess the performance and learning effectiveness of our employees.

To further foster a culture of staff improvement, we have incorporated the concept of continuous self-learning into our daily management. The Group is very supportive of employees' participation in personal and professional training and promotes a culture of knowledge and experience sharing among employees. Additional learning materials such as reference documents and training videos are also offered to employees at all levels to support the ongoing training in their spare time. More importantly, a training funding scheme has been established to encourage the uptake of external training for all employees. The financial aid is granted according to their work performance.

## OPERATIONAL EXCELLENCE

### Anti-corruption

*Code of Conduct*

The Group adheres to ethical and honest business operations and upholds a zero-tolerance attitude towards all kinds of fraudulent acts, including corruption, bribery, extortion, fraud and money laundering, as well as management collusion and override. We comply with the highest standards and practices to fight corruption, including but not limited to compliance with the following laws, regulations and guidelines:

- Prevention of Bribery Ordinance of Hong Kong (Cap. 201 of the Laws of Hong Kong)
- Criminal Law of the PRC
- Anti-Money Laundering Law of the PRC
- Environmental, Social and Governance Reporting Guide issued by HKEx
- Corporate Governance Code and Corporate Governance Report issued by HKEx

Differ prevents corruption, bribery and money laundering in any form through the enforcement of the Anti-corruption Policy and Code of Conduct. These policies educate employees on a series of ethical practices to ensure they can act professionally, fairly and with integrity in all business transactions and relationships. The Group strictly prohibits its employees from transferring benefits to or receiving benefits from stakeholders in any form. Any breach of the rules will lead to disciplinary actions including dismissal, and serious offenders may be reported to disciplinary authorities for further legal actions and required to compensate for the losses caused.

With an aim to uphold high standards of corporate governance and further enhance our employees' awareness regarding anti-corruption, in December 2023, the Group provided self-study anti-corruption training materials to all members of the Board, with each member undertaking eight hours of training and learning. During the Reporting Period, the Group had no breaches of relevant laws and regulations, and no concluded legal cases regarding corruption practices were brought against it or its employees.

*Extending Our Values Across Suppliers*

The Company attaches great attention on the suppliers' integrity and ethical behavior when choosing its business partners. We extend our Code of Conduct to our suppliers, service providers, agents or representatives (including their senior management and authorised representatives), so as to maintain a high standard of business ethics.

All selected suppliers and service providers are required to sign the Integrity Agreement before cooperation, which makes sure these business parties share our integrity standards and act in a dignified manner. If any parties are found to violate our rules and policies regarding business integrity and ethics (or we have reasonable suspicions about it), it may lead to the immediate termination of the related contract(s).

*Whistleblowing Policy*

We do not tolerate any fraudulent business activities and encourage stakeholders with knowledge of any anti-corruption violations across the Company to report them immediately to us. In order to uphold an ethical corporate culture, the Group focuses on building a sound and confidential reporting channel to discover any fraud, non-compliance, malpractices, misconduct or irregularity against applicable laws and regulations and relevant policies of the Group.

In accordance with our Whistleblowing Policy, a whistleblowing system has been established. This system strengthens our contact with stakeholders to further prevent the occurrence of corruption. Specifically, we encourage all stakeholders including our employees, suppliers and business partners to report any suspected violations in either written or verbal form through email or hotline. We charge the oversight function of the whistleblowing system to the Audit Committee of the Group, in which our Audit and Investigation Department will start to investigate the reported case promptly. Information of the reported case(s) and the identity of the whistleblower will be kept confidential to ensure the investigation is conducted without any forms of disturbance and in a fair manner. Hence, we promise to protect all good-will whistleblowers from any acts of discrimination or retaliation.

Last but not least, we will take disciplinary actions against those who violate the relevant laws and regulations. All information will be recorded in the Investigation Report for formulating remedial measures and improvement plans to prevent reoccurrence. A reward scheme is also implemented to motivate employees to act with integrity when witnessing unlawful practices.

**Customer Privacy and Data Protection**

The Group regards customer privacy and personal data protection as a matter of prime importance given that our business is built on trust. We strictly adhere to the laws and regulations in Hong Kong and Mainland China, including the Personal Information Protection Law of the PRC, the Data Security Law of the PRC and the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong).

We spare no efforts in resolving clients' concerns on data privacy, and have crucially implemented a series of stringent guidelines and procedures on collecting, using, transferring, storing and disclosing customer information. In order to provide value-added services and enhance customer experiences, relevant information is collected and handled in a secure and confidential manner. The Group requires that only authorised personnel who have received proper training are granted rights to access, process and erase the information. Employees should keep any customer information obtained during their employment confidential, and not disclose such relevant data to third parties. In the event of receiving governmental and legal orders to disclose the data, Differ will only take further actions after receiving clients' prior consent. If any cases of confidential data leakage are identified, the Group will rectify it promptly and take legal actions based on the severity of the incident.

During the Reporting Period, Differ was not aware of any material breaches of laws and regulations relating to data protection and privacy matters.

**Responsible Supply Chain Management**

The success of the Group is inseparable from maintaining win-win partnerships with various suppliers and business partners. We have conducted online surveys to maintain active engagement and communication with suppliers. Through the stakeholder engagement activity, suppliers can not only understand the expectations of the Group, but also provide their feedback and concerns to the Group. During the Reporting Period, we collaborated with 72 suppliers in the PRC.

The Group recognises the significant role of supply chain management in protecting its interests and reducing indirect environmental and social risks throughout its business cooperation. We aim to apply the high ESG standards that we use to govern ourselves to simultaneously influence and regulate the ESG performance of our suppliers. When selecting reliable and suitable business partners, we have developed and implemented comprehensive selection criteria, with particular emphasis on evaluating the contributions and commitments of our partners on environmental conservation, labour rights protection and ethical operations in a fair, open, and impartial manner.

To further facilitate the implementation of the Code of Conduct for suppliers, inspections regarding the corporate environmental and social responsibilities are carried out to ensure the practices of our suppliers are able to meet the Group's expectations and standards. In particular, regarding the procurement management, the Group regularly reviews and closely monitors the procurement process by taking various measures, so as to ensure the fairness and reasonableness of the procurement contract can be guaranteed. The services of suppliers and their performance are also regularly assessed by specific personnel of the Group. Through constant monitoring and assessment, we hope to effectively manage the environmental and social risks along our supply chain in order to ensure that the performance of suppliers aligns with the Group's sustainable development strategy. In case of any violation of any laws and regulations, the Group will halt the business collaborations with the suppliers involved promptly.

Moving forward, the Company will consider developing policies to more effectively manage the environmental and social risks inherent to the supply chain.

**Customer Service and Satisfaction**

Customer feedback is the driving force behind Differ's sustainable progress. The Group is committed to maintaining good communications with its customers in order to deliver the best possible services to them and elevate their experiences. To do so, we have established a customer services mechanism to ensure the quality of our products and services, which has strengthened the Group's relationship with its customers, as well as improved customer satisfaction and brand loyalty. Additionally, we have conducted regular questionnaires and visits to understand the demands and expectations from different clients.

We welcome all customer enquiries and complaints, and we will treat all opinions in a fair and humble manner. According to the Procedural Manual implemented by the Group, prompt actions will be taken to investigate the relevant cases and remedial action plans will be carried out where necessary. Once the enquiry or complaint is resolved, the case will be further examined so as to understand the root cause to prevent similar cases from reoccurrence in the future.

**Intellectual Property Rights**

The Group promises to respect creative achievements of copyright owners as it is aware that protecting intellectual property ("IP") is essential for driving innovation within the industry. Without the protection of unique ideas, businesses will find it difficult to thrive, and corporations will eventually be deterred from investing in research and development ("R&D"). Therefore, the Group strictly adheres to the Patent Law of the PRC, Anti-unfair Competition Law of the PRC and other regional IP-related laws and regulations. During the Reporting Period, the Company did not face any cases of violation of IP rights.

In order to reinforce and standardise the Group's management of IP rights, it has published the Intellectual Property Management Manual. All employees of Differ have received a thorough explanation of the Group's research, product and service development, and documentation procedures in regard to IP rights protection. Meanwhile, the Group has offered relevant training and promotion campaigns to raise awareness of IP rights among employees, particularly for the senior management and departmental managers.

In order to prevent the leakage of IP and confidential information and eliminate potential losses caused by improper behaviour, all employees and business partners of the Group are required to sign non-disclosure agreements. Prior permission is required for all actions of copying, using and transferring related documents. If infringement of the Group's IP rights is observed, legal actions will be taken. As we understand the importance of R&D and IP rights, we not only aim at protecting and promoting our own IP rights, but also pledge to respect all the achievements of industry peers. We will never use other parties' technology or trademark without their prior permission.

**Ethical Product and Service Marketing**

The Company strongly focuses on improving the quality of its products and services to meet the customers' expectations and enhance brand loyalty. Providing ethical products and services is a core value for the Group in this ever-changing market. We aim to constantly evolve our capital management to ensure we can provide customer-oriented products and services in an immediate and timely manner. As a matter of operational practice, Differ complies with laws and regulations that have a significant impact on the Group relating to advertising and marketing, including but not limited to the Electronic Commerce Law of the PRC, the Advertisement Law of the PRC, and the Law of the PRC on Anti-unfair Competition.

We have established an Internal Quality Committee that is comprised of experts from different departments such as finance, legal compliance and management etc. The responsibilities of the Internal Quality Committee include identifying the latest market trends, regularly reviewing and updating the Group's policies and procedures in regard to produce and service quality.

During the Reporting Period, the Group was not aware of any material breaches of laws and regulations relating to marketing, advertising or labelling in both Hong Kong and Mainland China, and we have not received any complaints related to products and services.

## COMMUNITY DEVELOPMENT

### Community Engagement

Differ is dedicated to fulfilling its corporate social responsibility by building a harmonious and thriving society. In light of our core value of "Sharing and Win-win", we share our belief that everyone can win through collaboration. We believe that business and community development go hand in hand, so it is our duty to care about the needs of our community and deliver positive impacts.

In order to foster long-lasting relationships with the community, we support the community through charitable partnerships, strategic sponsorships and donations, as well as encouraging our employees to actively participate in various volunteer activities and initiatives during their spare time. Specifically, Differ is proactive in understanding the impact of its businesses on the communities in which it operates and exploring opportunities to contribute to community development. In the past years, it actively engaged in investments to address issues related to education, public health and well-being, environmental protection, and public infrastructure construction in poverty-stricken areas to help raise funds for those living in impoverished suburban areas, including the elderly and children.

During the Reporting Period, the Group donated RMB6,300 to sponsor the educational community activity of "Gas Safety Knowledge Contest" in Weihai City, Shandong Province. 4 employees of the Group engaged in the activity and contributed a total of 192 hours. In addition, we sponsored RMB8,700 to the activity of "Retired Soldiers Association" in Zhejiang Province, and donated RMB20,000 to the Charity Federation of Longquan City. Looking ahead, we will consider the establishment of a relevant policy and continue to give back to the community to strike a balance between community growth and business development.

## ENVIRONMENTAL STEWARDSHIP

### Green Office

*Compliance Operations*

The alarming trend of climate change lately has brought us unprecedented concerns on environmental stewardship and resource conservation. Differ has adopted and implemented a host of sustainable practices and environmental commitments, aiming at diminishing the Company's negative impacts on the environment, protecting the environment and strengthening its role as a green enterprise.

We strictly comply with environmental laws and regulations. A series of internal policies and working procedures, covering greenhouse gas ("GHG") emissions, energy and resource usage, water and waste management have been enacted to provide detailed and people-oriented guidance for our employees to follow.

As mentioned in the 'Labour Rights' section above, we have set out our clear environmental responsibilities in the Code of Conduct. By implementing the Environmental Management System ("EMS"), the environmental performance across operations is closely monitored by specific personnel of the Group. During the Reporting Period, the Group was not aware of any significant non-compliance with laws and regulations relating to exhaust air and GHG emissions, sewage discharges into water and land, and the generation of hazardous and non-hazardous wastes in Hong Kong and Mainland China.

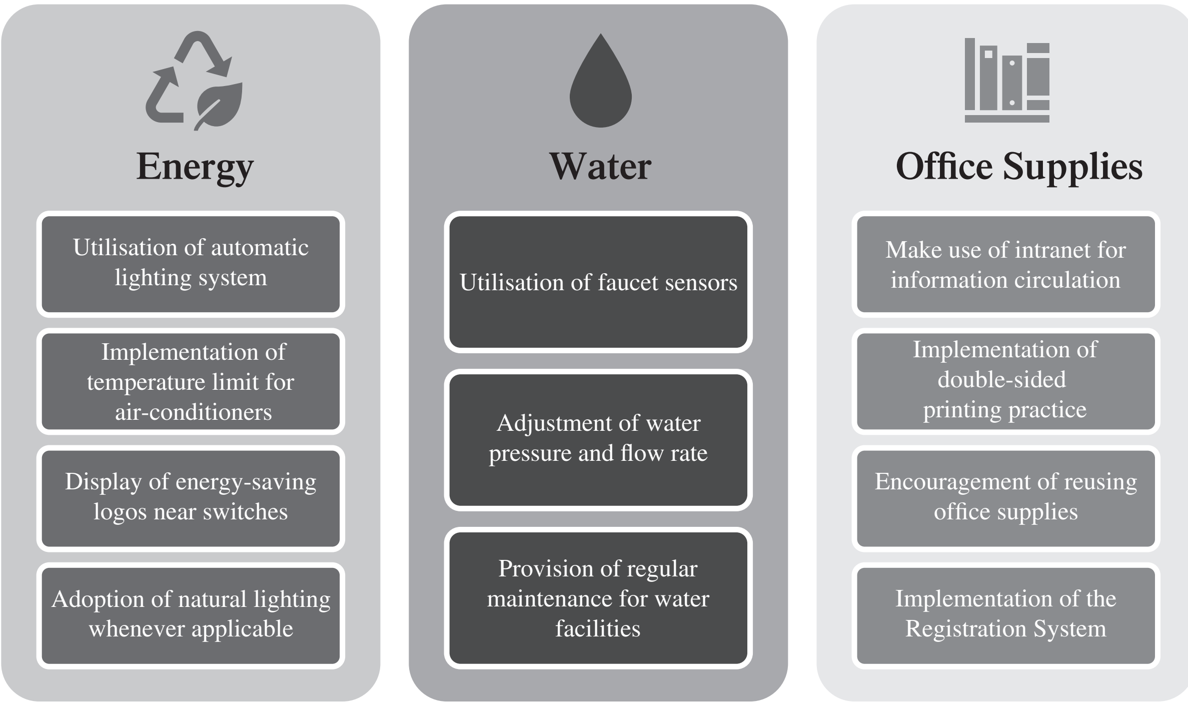
*Sustainable Practices*

Since the premises where the Group operates are mainly offices, it aims to fulfil the commitment on resource conservation through the prudent selection of green office equipment. We solely source products with a green lifecycle, from design, production and usage to disposal. Our office equipment is procured based on the PRC's National Green Procurement List, in which recyclable materials and equipment that run on renewable energy are prioritised and highly favoured. All our electrical appliances have energy efficiency labels or certifications recognised by environmental organisations. Sensor-controlled lights are installed in our office to save the daily electricity consumption.

To further bolster our environmental stewardship, we have enhanced the awareness of our employees on environmental protection by introducing the Internal Green Office Guideline. This Guideline provides a series of environmental-friendly measures that employees can learn from and adopt in their daily work and life. Particular attention has been paid on practices related to air pollutants and GHG emissions, energy consumption and water consumption, as well as waste disposal. In the end, we aim to improve the operational efficiency and cultivate the habits of environmental protection amongst our employees.

In addition, we uphold the idea of "maintenance rather than replacement". Regular inspections on all electrical appliances and water taps are performed to prevent any leakage so as to extend their lifespan. Our procurement depends only on the physical storage to fulfil basic needs, which enables us to minimise wastage and optimise resource allocation.

As governed by the Energy and Resources Saving Policy of the Group, instructions regarding the consumption of energy, water, and office supplies are provided to all employees, encouraging everyone to make incremental progress towards the goal of resource conservation. This Policy not only guides staff to implement green practices and raise their awareness of environmental protection, but also effectively reduces the impact of daily business operations on the environment. The following diagram shows a number of sustainable actions that are promoted to our employees.

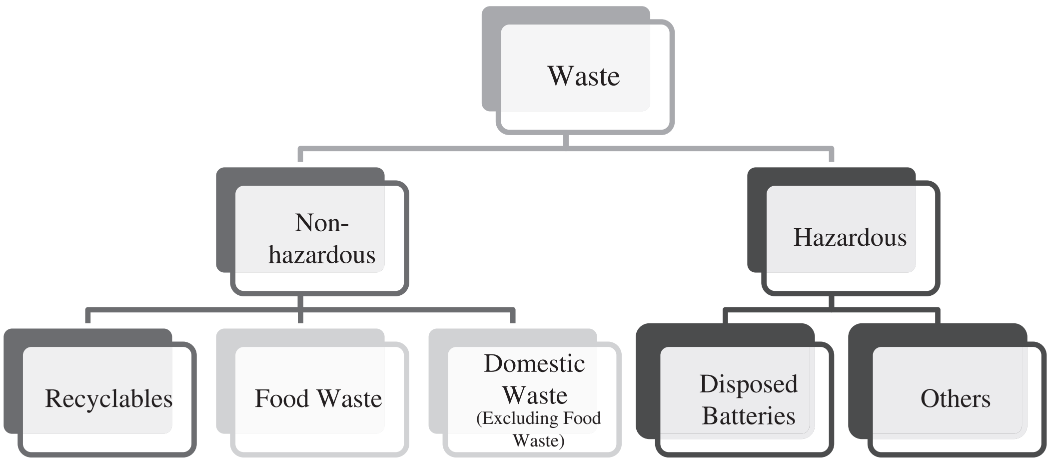



**Material Consumption**

In order to avoid resource depletion at the expense of future generations, Differ is committed to adopting behavioural changes and achieving responsible material consumption. The material consumption behaviour of the Group is closely monitored by the Management Department. By eliminating unnecessary and excessive consumption through the 4R Principles of ‘Reduce, Reuse, Recycle, and Replace’, we aim to optimise resource efficiency and make progress on our sustainability journey. Corrective measures will be implemented once any environmental performance is found unsatisfactory in periodic audits. Root cause(s) will also be examined whenever applicable to relieve the environmental impact and avoid a further deterioration of the environment.

**Waste Management**

Despite the Group not generating significant amounts of hazardous and non-hazardous waste during its operation, nevertheless it has formulated a Waste Separation Management Policy to guide the daily waste classification and management. The schematic illustration that guides the Company in daily garbage classification is as follows:




Driven by the underlying aim of reducing waste emissions, the Group has adopted a host of waste management initiatives to reduce the consumption of single-use materials and maximise recycling rates. For example, envelopes and file folders used for internal communications are reused, and employees are recommended to receive reports digitally to reduce the use of paper for printing.

Moreover, in order to enhance the waste collection rate and promote behavioural change among employees, labelled bins in different colours are allocated in designated areas including staircases, pantries, and toilets within the Company, which allow employees to responsibly dispose of waste and facilitate waste sorting. Regarding hazardous waste, disciplinary actions will be taken in the event that malpractices, such as mixing hazardous waste with non-hazardous waste, are observed. An administrator is entrusted by the Group to monitor and manage the waste management process. When an employee applies for new batteries for replacement, the administrator will examine the old batteries and carry out further handling, so as to prevent unnecessary waste and improper waste disposal respectively. After waste sorting and preliminary handling, all of the wastes will then be collected and handled by the licensed waste collectors.

**Water Resource Consumption**

Water conservation measures have been widely promoted throughout the Company to reduce water consumption as well as educating employees on the necessity of enhancing water efficiency. Guided by our Energy and Resources Saving Policy, apart from the three main water saving measures illustrated in the diagram above, we extend our requirements to the supply chain by requiring our contractors and subcontractors to recycle and reuse water on-site as much as possible.

During the Reporting Period, the Group has not encountered any problems in sourcing water that is fit for purpose.

**Climate Change**

*Risk Management*

There is no doubt that climate change has become a prevalent issue for corporates across all sectors and geographical regions. Differ acknowledges the importance and urgency of enhancing climate adaptability and resilience across its value chain. Physical risks and transition risks may have varying degrees of impact on the Group's business operations and development in the long-term.

As the Group recognises the importance of risk management, potential risks and opportunities arising from climate change have been identified and incorporated into the decision making, risk management and daily operations of the Group. As shown in the table below, the climate risk assessment, which was conducted in accordance with the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations, has helped us to systematically analyse climate-related risks and opportunities that have the potential to be material to Differ, as well as the corresponding impacts that may be important to its value chain.

| Risks | Potential impacts |
|---|---|
| **Physical risk (acute)** | |
| Increased frequency and severity of extreme weather events (e.g., floods, typhoons, wildfires, extreme heat, etc.) | Damage on developing, developed, and invested real estate properties |
| | Negative impacts on the manufacture, storage, transportation, and the distribution of cars along the automobile e-commerce supply chain |
| **Physical risk (chronic)** | |
| Gradual increase in global temperature and worsening air quality | Negative impacts on the employees' health and safety |
| **Transition risk (policies and regulations)** | |
| Increased stringency in the regulation of carbon emissions | Increased costs regarding compliance with the regulation of carbon emissions |
| Increased price on carbon emissions and purchased energy sources | Increased carbon emission and energy costs |

| Opportunities | Potential impacts |
|---|---|
| **Products and services** | |
| Shift of market preferences to low emission business | Access to new automobile market and the diversification of assets and products, and increased market demand in green buildings and properties |
| Development of new financial services regarding climate change mitigation and adaptation | Increased revenues by developing new solutions to mitigation and adaptation needs |
| **Resilience** | |
| Participation in renewable energy programmes and adoption of energy efficiency measures | Increased market valuation through resilience planning (e.g., infrastructure, land, buildings) and increased reliability of supply chain and ability to operate under various conditions |

In order to tackle climate change, the Group has established the Operation Guidelines under Extreme Weather. Based on the different characteristics of natural disasters, it clearly stipulates the appropriate preventive measures and emergency procedures that should be taken in accordance with the official guidelines issued by local governments. The Group aims to strengthen its climate related policies to move in line with international standards and national regulations, including conducting more in-depth climate risk assessments and developing climate governance measures in the near future.

*Air and GHG Emissions*

Although the Group emits limited air and GHG pollutants due to the nature of its operations, it is still committed to making gradual changes to minimise its environmental impact.

Establishing an extensive monitoring system through the Monitoring and Measurement Management Procedure in place to control pollutant emissions is the first step taken by the Group. Our Integrated Management Centre has been appointed to handle all monitoring tasks related to air and GHG emissions. Records of resource usage are recorded to facilitate statistical and regulatory reporting on the effectiveness of measures regarding energy saving and emission reduction during the Reporting Period. By centralising all the emission data of the Group, the Integrated Management Centre is able to better conduct the environmental performance analysis and develop a consistent monitoring standard to meet regulatory standards. Accordingly, our daily GHG emissions are recorded for the annual data analysis, which provides a solid foundation for the future development of suitable environment strategies and policies.

Based on the systematic collection of resource consumption records, the majority of air pollutants and GHG emissions from the Group's operation are generated from the electricity consumption. During the Reporting Period, it makes up 74.54% (2022: 95.44%) of the total GHG emissions, while mobile fuel combustion contributes 18.60% (2022: 4.51%), and paper waste disposed at landfills and business air travel forms 6.86% (2022: 0.05%) of the total GHG emissions. Please refer to the section titled "KPIs Summary" for more detailed disclosure of the environmental KPIs.

As energy saving is crucial to reduce GHG emissions for the Group, the aforementioned Energy and Resources Saving Policy has provided all our employees with effective measures to identify energy-saving opportunities, carry out low-carbon operations and improve energy efficiency. We will continue to monitor the power consumption of office premises and increase the proportion of energy efficient equipment, such as LED lights. The Group also aims to maintain or lower energy consumption level compared to the previous reporting period. For more information, please refer to the above section headed "Material Consumption".

*Targets*

Based on the aforementioned environmental impacts and footprints across our business operations, we have engaged a professional sustainability consultancy to analyse the Group's past environmental performance and formulate four new quantitative environment-related targets. As shown in the table below, these environmental targets mainly cover the aspects of emissions, energy, water and non-hazardous waste (paper), which are considered to be material to the Group. We will review and disclose the progress of our established targets annually and may further adjust them should there be exceptional changes in operations.

| Aspect | Target |
|---|---|
| Emissions | By 2026, reduce absolute GHG emissions (Scope 1–3) by 3%, compared to the 2023 baseline |
| Energy | By 2026, reduce absolute energy usage by 3%, compared to the 2023 baseline |
| Water | By 2026, maintain absolute water usage at the 2023 baseline |
| Paper | By 2026, ensure annual paper usage does not exceed 2.3 tonnes |

## KPIs SUMMARY

Due to the Group's business nature, it does not have significant hazardous and non-hazardous waste generation. Hence, data related to waste is considered as immaterial to the Group. The air and GHG emissions data, as well as resource consumption data are illustrated in the below table.

| Environmental KPIs[1] | Unit | 2023 |
|---|---|---|
| **Air & GHG Emissions** | | |
| NOx | kg | 13.57 |
| SOx | kg | 0.41 |
| PM | kg | 1.00 |
| Scope 1 – Direct GHG emissions[2] | $tCO_2e$ | 73.92 |
| Scope 2 – Energy indirect GHG emissions[3] | $tCO_2e$ | 296.22 |
| Scope 3 – Other indirect GHG emissions[4] | $tCO_2e$ | 27.25 |
| Total GHG emissions | $tCO_2e$ | 397.40 |
| Intensity per Employee[5] | $tCO_2e$/person | 2.02 |
| **Resource Consumption** | | |
| Electricity | mWh | 469.63 |
| Intensity per Employee | mWh/person | 2.38 |
| Energy | GJ | 1,690.67 |
| Vehicle fuel | L | 27,694.47 |
| Intensity per Employee | L/person | 140.58 |
| Energy | GJ | 927.93 |
| Water | $m^3$ | 1,876.00 |
| Intensity per Employee | $m^3$/person | 9.52 |
| Paper | tonnes | 2.58 |
| Intensity per Employee | tonnes/person | 0.01 |

1 As all figures are rounded to two decimal places, there might be slight discrepancies when summing up.

2 Scope 1 represents direct GHG emissions generated by the mobile combustion of unleaded petrol and gasoline. The calculation refers to the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) published by the Hong Kong Environmental Protection Department and Electrical and Mechanical Services Department, and the guidance worksheets of the World Resources Institute's GHG Protocol Tool for Mobile Combustion.

3 Scope 2 represents energy indirect GHG emissions generated by the electricity consumption. The emission factors for Scope 2 emissions are derived from the China Regional Power Grids Carbon Dioxide Emission Factors of 2023 and HK Electric Investment's Sustainability Report 2022.

4 Scope 3 represents other indirect GHG emissions generated by business air travel of employees and paper waste disposed at landfill. The emission factor for paper waste references the "How to prepare an ESG Report, Appendix 2: Reporting Guidance on Environmental KPIs" published by HKEx. Indirect emissions generated by business air travel are based on the Carbon Emissions Calculator of the International Civil Aviation Organisation.

5 Intensity per employee metric includes full-time and part-time employees of the Group.

| Social KPIs | Unit | 2023 |
|---|---|---|
| **Workforce** | | |
| Total Number of Employees | person | 197 |
| By Gender | | |
| Male | person | 94 |
| Female | person | 103 |
| By Employment Category | | |
| Senior Management | person | 18 |
| Middle Management | person | 41 |
| General Staff | person | 138 |
| By Age Group | | |
| Under 30 | person | 19 |
| 30–39 | person | 108 |
| 40–49 | person | 53 |
| 50–59 | person | 16 |
| At or Above 60 | person | 1 |
| By Employment Type | | |
| Full-time | person | 169 |
| Part-time | person | 28 |
| By Geographical Region | | |
| Mainland China | person | 174 |
| Hong Kong | person | 23 |

| Social KPIs | Unit | 2023 |
|---|---|---|
| **Turnover Rate**[6] | | |
| Total Turnover Rate | % | 53.74 |
| By Gender | | |
| Male | % | 59.26 |
| Female | % | 48.41 |
| By Age Group | | |
| Under 30 | % | 66.67 |
| 30–39 | % | 50.75 |
| 40–49 | % | 64.66 |
| 50–59 | % | 17.14 |
| At or Above 60 | % | 0.00 |
| By Geographical Region | | |
| Mainland China | % | 52.87 |
| Hong Kong | % | 60.00 |
| **Health and Safety**[6] | | |
| Work-related Fatality | person | 0 |
| Work-related Injury | person | 0 |
| Lost Day(s) due to Work-related Injury | day | 0 |
| **Training and Development**[6] | | |
| Total Employees Trained Rate | % | 22.84 |
| Average Training Hours | hours/person | 4.21 |
| Employees Trained Rate by Gender | | |
| Male | % | 53.33 |
| Female | % | 46.67 |
| Employees Trained Rate by Employment Category | | |
| Senior Management | % | 22.22 |
| Middle Management | % | 13.33 |
| General Staff | % | 64.44 |
| Average Training Hours by Gender | | |
| Male | hours/person | 3.70 |
| Female | hours/person | 4.68 |

6 Data and calculations include full-time and part-time employees of the Group.

| Social KPIs | Unit | 2023 |
|---|---|---|
| Average Training Hours by Employment Category | | |
| Senior Management | hours/person | 1.78 |
| Middle Management | hours/person | 2.73 |
| General Staff | hours/person | 4.97 |
| **Supply Chain Management** | | |
| Suppliers by Geographical Region | | |
| Mainland China | suppliers | 72 |
| **Anti-corruption** | | |
| Concluded Legal Cases regarding Corrupt Practices | cases | 0 |
| **Community Investment** | | |
| Funds Contributed to the Focus Area | RMB | 35,000 |
| Time Contributed to the Focus Area | hours | 192 |
| Employees Contributed to the Focus Area | person | 4 |

## HKEX ESG REPORTING GUIDE INDEX

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Section |
|---|---|---|
| **Mandatory Disclosure Requirements** | | |
| **Governance Structure** | A statement from the board containing the following elements:<br>(i) a disclosure of the board's oversight of ESG issues;<br>(ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and<br>(iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses. | **SUSTAINABILITY GOVERNANCE**<br>**Management Responsibilities** |
| **Reporting Principles** | A description of, or an explanation on, the application of the following Reporting Principles in the preparation of the ESG Report:<br>**Materiality:** The ESG report should disclose:<br>(i) the process to identify and the criteria for the selection of material ESG factors;<br>(ii) if a stakeholder engagement is conducted, a description of significant stakeholders identified, and the process and results of the issuer's stakeholder engagement.<br>**Quantitative:** Information on the standards, methodologies, assumptions and/or calculation tools used, and source of conversion factors used, for the reporting of emissions/energy consumption (where applicable) should be discussed.<br>**Consistency:** The issuer should disclose in the ESG report any changes to the methods or KPIs used, or any other relevant factors affecting a meaningful comparison. | **ABOUT THIS REPORT** |
| **Reporting Boundary** | A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report. If there is a change in the scope, the issuer should explain the difference and reason for the change. | **ABOUT THIS REPORT** |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Section |
|---|---|---|
| **"Comply or explain" Provisions** | | |
| **A. Environmental** | | |
| **Aspect A1: Emissions** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.<br><br>*Note:*<br>Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations. | **ENVIRONMENTAL STEWARDSHIP**<br>**Green Office**<br><br>**Waste Management**<br><br>**Water Resource Consumption**<br><br>**Climate Change** |
| **KPI A1.1** | The types of emissions and respective emissions data. | **ENVIRONMENTAL STEWARDSHIP**<br>**Climate Change**<br><br>**KPIs SUMMARY** |
| **KPI A1.2** | Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | **KPIs SUMMARY** |
| **KPI A1.3** | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Due to the business nature of the Group, hazardous waste is considered to be insignificant to its operations during the Reporting Period. |
| **KPI A1.4** | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Due to the business nature of the Group, non-hazardous waste is considered to be insignificant to its operations during the Reporting Period. |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Section |
|---|---|---|
| **KPI A1.5** | Description of emissions target(s) set and steps taken to achieve them. | **ENVIRONMENTAL STEWARDSHIP**<br>**Green Office**<br><br>**Climate Change** |
| **KPI A1.6** | Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them. | **ENVIRONMENTAL STEWARDSHIP**<br>**Waste Management**<br><br>Due to the business nature of the Group, waste is considered to be insignificant to its operations during the Reporting Period, thus no waste reduction targets have been set. |
| **Aspect A2: Use of Resources** | | |
| **General Disclosure** | Policies on the efficient use of resources, including energy, water and other raw materials.<br><br>*Note:*<br>Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc. | **ENVIRONMENTAL STEWARDSHIP**<br>**Green Office**<br><br>**Material Consumption**<br><br>**Water Resource Consumption** |
| **KPI A2.1** | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility). | **KPIs SUMMARY** |
| **KPI A2.2** | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | **KPIs SUMMARY** |
| **KPI A2.3** | Description of energy use efficiency target(s) set and steps taken to achieve them. | **ENVIRONMENTAL STEWARDSHIP**<br>**Green Office**<br><br>**Climate Change** |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Section |
|---|---|---|
| **KPI A2.4** | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them. | **ENVIRONMENTAL STEWARDSHIP**<br>**Water Resource Consumption** |
| **KPI A2.5** | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | Our operation does not involve the use of raw and packaging materials. |
| **Aspect A3: The Environment and Natural Resources** | | |
| **General Disclosure** | Policies on minimising the issuer's significant impacts on the environment and natural resources. | **ENVIRONMENTAL STEWARDSHIP**<br>**Green Office**<br><br>**Material Consumption** |
| **KPI A3.1** | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | **ENVIRONMENTAL STEWARDSHIP**<br>**Green Office**<br><br>**Material Consumption** |
| **Aspect A4: Climate Change** | | |
| **General Disclosure** | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | **ENVIRONMENTAL STEWARDSHIP**<br>**Climate Change** |
| **KPI A4.1** | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | **ENVIRONMENTAL STEWARDSHIP**<br>**Climate Change** |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Section |
|---|---|---|
| **B. Social** | | |
| **Employment and Labour Practices** | | |
| **Aspect B1: Employment** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | **PEOPLE MANAGEMENT**<br>**Child and Forced Labour Prevention**<br><br>**Employee Relations**<br><br>**Labour Rights** |
| **KPI B1.1** | Total workforce by gender, employment type, age group and geographical region. | **KPIs SUMMARY** |
| **KPI B1.2** | Employee turnover rate by gender, age group and geographical region. | **KPIs SUMMARY** |
| **Aspect B2: Health and Safety** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | **PEOPLE MANAGEMENT**<br>**Occupational Health and Safety** |
| **KPI B2.1** | Number and rate of work-related fatalities occurred in each of the past three years including the reporting year. | **PEOPLE MANAGEMENT**<br>**Occupational Health and Safety**<br><br>**KPIs SUMMARY** |
| **KPI B2.2** | Lost days due to work injury. | **PEOPLE MANAGEMENT**<br>**Occupational Health and Safety**<br><br>**KPIs SUMMARY** |
| **KPI B2.3** | Description of occupational health and safety measures adopted, and how they are implemented and monitored. | **PEOPLE MANAGEMENT**<br>**Occupational Health and Safety** |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Section |
|---|---|---|
| **Aspect B3: Development and Training** | | |
| **General Disclosure** | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.<br><br>*Note:*<br>Training refers to vocational training. It may include internal and external courses paid by the employer. | **PEOPLE MANAGEMENT**<br>**Training and Development** |
| **KPI B3.1** | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | **KPIs SUMMARY** |
| **KPI B3.2** | The average training hours completed per employee by gender and employee category. | **KPIs SUMMARY** |
| **Aspect B4: Labour Standards** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | **PEOPLE MANAGEMENT**<br>**Child and Forced Labour Prevention** |
| **KPI B4.1** | Description of measures to review employment practices to avoid child and forced labour. | **PEOPLE MANAGEMENT**<br>**Child and Forced Labour Prevention** |
| **KPI B4.2** | Description of steps taken to eliminate such practices when discovered. | **PEOPLE MANAGEMENT**<br>**Child and Forced Labour Prevention** |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Section |
|---|---|---|
| **Operating Practices** | | |
| **Aspect B5: Supply Chain Management** | | |
| **General Disclosure** | Policies on managing environmental and social risks of the supply chain. | **OPERATIONAL EXCELLENCE**<br>**Responsible Supply Chain Management** |
| **KPI B5.1** | Number of suppliers by geographical region. | **OPERATIONAL EXCELLENCE**<br>**Responsible Supply Chain Management**<br><br>**KPIs SUMMARY** |
| **KPI B5.2** | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored. | **OPERATIONAL EXCELLENCE**<br>**Responsible Supply Chain Management** |
| **KPI B5.3** | Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored. | **OPERATIONAL EXCELLENCE**<br>**Responsible Supply Chain Management** |
| **KPI B5.4** | Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored. | **OPERATIONAL EXCELLENCE**<br>**Responsible Supply Chain Management** |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Section |
|---|---|---|
| **Aspect B6: Product Responsibility** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | **OPERATIONAL EXCELLENCE**<br>**Customer Privacy and Data Protection**<br><br>**Ethical Product and Service Marketing** |
| **KPI B6.1** | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Due to the business nature of the Group, it did not recall any products for safety and health reasons. Hence, this is considered to be an immaterial KPI to the Group. |
| **KPI B6.2** | Number of products and service-related complaints received and how they are dealt with. | **OPERATIONAL EXCELLENCE**<br>**Customer Service and Satisfaction**<br><br>**Ethical Product and Service Marketing** |
| **KPI B6.3** | Description of practices relating to observing and protecting intellectual property rights. | **OPERATIONAL EXCELLENCE**<br>**Intellectual Property Rights** |
| **KPI B6.4** | Description of quality assurance process and recall procedures. | **OPERATIONAL EXCELLENCE**<br>**Customer Service and Satisfaction** |
| **KPI B6.5** | Description of consumer data protection and privacy policies, and how they are implemented and monitored. | **OPERATIONAL EXCELLENCE**<br>**Customer Privacy and Data Protection** |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Section |
|---|---|---|
| **Aspect B7: Anti-corruption** | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | **OPERATIONAL EXCELLENCE**<br>**Anti-corruption** |
| **KPI B7.1** | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | **OPERATIONAL EXCELLENCE**<br>**Anti-corruption**<br><br>**KPIs SUMMARY** |
| **KPI B7.2** | Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored. | **OPERATIONAL EXCELLENCE**<br>**Anti-corruption** |
| **KPI B7.3** | Description of anti-corruption training provided to directors and staff. | **OPERATIONAL EXCELLENCE**<br>**Anti-corruption** |
| **Community** | | |
| **Aspect B8: Community Investment** | | |
| **General Disclosure** | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | **COMMUNITY DEVELOPMENT**<br>**Community Engagement** |
| **KPI B8.1** | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | **COMMUNITY DEVELOPMENT**<br>**Community Engagement** |
| **KPI B8.2** | Resources contributed (e.g. money or time) to the focus area. | **COMMUNITY DEVELOPMENT**<br>**Community Engagement**<br><br>**KPIs SUMMARY** |

# INDEPENDENT AUDITOR'S REPORT

**TO THE MEMBERS OF DIFFER GROUP AUTO LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

**DISCLAIMER OF OPINION**

We were engaged to audit the consolidated financial statements of Differ Group Auto Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 128 to 306, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significant of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to form an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with disclosure requirements of the Hong Kong Companies Ordinance.

**BASIS FOR DISCLAIMER OF OPINION**

**Multiple uncertainties relating to going concern**

As described in note 2(b) to the consolidated financial statements, for the year ended 31 December 2023, the Group incurred a net loss attributable to the shareholders of the Company of approximately RMB2,522,332,000 and a net operating cash outflow of approximately RMB771,205,000, and as of that date, the Group had net current liabilities of approximately RMB1,005,138,000.

As at 31 December 2023, the Group was in default in most of the bank and other borrowings and corporate bonds as at 31 December 2023 due to the events of default of late or overdue payment of loan principal and interest or cross default of the Group's borrowings, which, as a consequence, would be immediately repayable if and when requested by the lenders.

Moreover, the Company was served with a winding-up petition from a corporate bond holder issued with the High Court of Hong Kong for the winding-up of the Company.

These conditions, together with other matters described in note 2(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business.

The directors of the Company have been undertaking a number of measures and plans to improve the Group's liquidity and financial position, and to mitigate the liquidity pressure and to improve the Group's financial position, which are set out in note 2(b) to the consolidated financial statements.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures and plans, which are subject to multiple uncertainties, including:

(i) The successful execution and completion of the Scheme and Proposed Restructuring in restructuring indebtedness payables to Scheme Creditors;

(ii) The successful execution and completion of the Financing Restructuring Plan in restructuring and renewal its existing borrowings from those lenders and creditors when their current terms expire;

(iii) The recovery of the real estate sector and other businesses to generate cash inflow from its operations, settlement of various receivables upon their maturity and payment request by the Group as planned and scheduled;

(iv) The successful in obtaining Funds from Operations and Businesses in accordance with the timeline of the cash flow projection reviewed by the directors of the Company; and

(v) The successful in obtaining Additional and Alternative Sources of Financing other than those mentioned above in meeting its financial obligations as and when they need.

The Group's ability to obtain the abovementioned financing and operating funds depends on: (i) current and ongoing regulatory environments and how the relevant policies and measures might affect the Group and/or the relevant financial institutions; and (ii) whether the lenders and creditors of existing bank and other borrowings are agreeable to the terms and conditions for such extension or renewal and the Group's ability to continuously comply with the relevant terms and conditions of bank and other borrowings.

As a result of the abovementioned multiple uncertainties, the potential interaction of these uncertainties, and the possible cumulative effect thereof, we were unable to form an opinion as to whether the going concern basis of preparation is appropriate.

Should the Group fail to achieve the abovementioned measures and plans, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down 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 non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

## OTHER MATTERS IDENTIFIED

The other matters identified below do not form part of paragraphs in relation to the disclaimer of opinion or the basis for disclaimer opinion. Had we not disclaimed our opinion regarding multiple uncertainties relating to going concern of the Group as described above, we would otherwise have issued a qualified opinion on the basis of the following scope limitations relating to (i) Recoverability of Receivables from customers, borrowers and counterparties; and (ii) Opening balances and comparative figures:

1. **Recoverability of Receivables from customers, borrowers and counterparties**

   As disclosed in notes 19 and 21 to the consolidated financial statements, during the year ended 31 December 2023, despite the exerted efforts of the directors of the Company to request certain customers, borrowers and counterparties in settling the Doubtful Loan and Account Receivables and Doubtful Other Receivables amounted to approximately RMB465,391,000 and approximately RMB129,687,000 respectively (collectively the "Receivables"), however, such customers, borrowers and counterparties did not settle the outstanding Receivables in accordance with the terms of the relevant contracts and agreements. The directors of the Company have taken certain alternatives to recover the Receivables from these customers, borrowers and counterparties, such as to take legal actions against them. In the circumstances of default in settlement, the Group recognised impairments of such Doubtful Loan and Account Receivables and Doubtful Other Receivables amounted to approximately RMB464,163,000 and RMB129,687,000, respectively which were charged to consolidated profit or loss for the year. The directors of the Company consider that the information used in their impairment assessment represented the best available estimates from the information available.

   We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves about the recoverability of the Receivables as at 31 December 2023 and hence the determination of impairment losses on such Receivables recognised in consolidated profit or loss for the year then ended because we were not provided with reasonable explanation and supporting documents to substantiate the recoverability of the Receivables as at 31 December 2023 and hence the determination of impairment losses on such Receivables recognised in consolidated profit or loss for the year then ended. There were no alternative satisfactory audit procedures that we could adopt to determine the recoverability of the Receivables as at 31 December 2023 and hence the determination of impairment losses on such the Receivables recognised in consolidated profit or loss for the year then ended contain material misstatements.

2. **Opening balances and comparative figures**

   The consolidated financial statements of the Group for the year ended 31 December 2022 which form the basis for the corresponding figures presented in the current year's consolidated financial statements were not audited by us.

As at 31 December 2022 and 31 December 2023, included in the Group's finance lease, loan and account receivables and other financial assets, there were balances with customers, borrowers and counterparties with an aggregate gross amount of approximately RMB156,088,000 and RMB166,025,668, respectively, and hence, during the year ended 31 December 2023, related impairment losses/fair value losses with an aggregate amount of approximately RMB136,680,000 was recognised in the consolidated profit or loss for the year. No direct confirmations have been received or sufficient appropriate evidence is available to verify the validity and accuracy of the net carrying amounts of such receivables from the customers, borrowers and counterparties recorded in the consolidated financial statements as at 31 December 2022 and 31 December 2023 and hence the related impairment losses/fair value losses recognised for the year ended 31 December 2023. Thus, we are unable to determine whether such balances with customers, borrowers and counterparties recorded in the consolidated financial statements as at 31 December 2022 and 31 December 2023 and hence the related impairment losses/fair value losses recognised for the year ended 31 December 2023 were free from material misstatements. This matter also has a possible effect on the comparability of the current period's figures and the corresponding figures in the consolidated financial statements of the Company for the year ended 31 December 2023.

There were no other satisfactory audit procedures to ascertain the existence, accuracy, presentation and completeness of opening balances and corresponding figures shown in the current year's consolidated financial statements for the year ended 31 December 2023.

Our opinion on the current year's consolidated financial statements is modified also because of the possible effect of these matters on the comparability of current year's figures and corresponding figures.

Had we been able to satisfy ourselves in respect of the matters mentioned above, adjustments might have been found to be necessary which would have had a consequential impact on the net assets of the Group as at 31 December 2022 and 31 December 2023 and its net loss and cash flows for the year ended 31 December 2023, and the related disclosures in the consolidated financial statements thereon.

## OTHER MATTERS

The consolidated financial statements of the Group for the year ended 31 December 2022, were audited by another auditor who expressed an unmodified opinion with an emphasis of matter paragraph about the going concern basis on those consolidated financial statements on 31 March 2023.

**Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements**

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

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

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

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. We report solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on these consolidated financial statements due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements.

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.

The engagement partner on the audit resulting in the independent auditor's report is Fok Tat Choi.

**Yongtuo Fuson CPA Limited**
*Certified Public Accountants*
**Fok Tat Choi**
Practising Certificate no. P06895

Hong Kong, 19 July 2024

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2023*

| | Notes | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|---|
| Income from automobile e-commerce business | 7 | **11,616** | 135,790 |
| Income from assets management business | 7 | **2,062,852** | 426,424 |
| Income from trading of commodities | 7 | **59,319** | 269,531 |
| Income from financial related services | 7 | **117,806** | 175,977 |
| Other income | 8 | **96,941** | 95,489 |
| Costs of automobile e-commerce business | | **(11,680)** | (107,165) |
| Costs of property sold | | **(1,542,253)** | (350,358) |
| Costs of trading of commodities | | **(59,397)** | (269,312) |
| Losses on disposal of subsidiaries | 37 | **(47,223)** | (58,484) |
| Employee benefit expenses | | **(39,414)** | (66,629) |
| Depreciation expenses | | **(7,726)** | (15,681) |
| Short-term lease expenses | | **(694)** | (1,487) |
| Other expenses | | **(2,404,060)** | (365,556) |
| Share of results of associates | 17 | **(232,654)** | (9,814) |
| Gain on bargain purchase arising from acquisition of subsidiaries | | **–** | 28,866 |
| Change in fair value of investment properties | 16 | **(155,166)** | 14,444 |
| Change in fair value of other financial assets | 20 | **(67,789)** | 41,742 |
| Finance costs | 9 | **(129,572)** | (73,582) |
| **Loss before income tax** | 10 | **(2,349,094)** | (129,805) |
| Income tax expense | 11 | **(173,311)** | (50,552) |
| **Loss for the year** | | **(2,522,405)** | (180,357) |
| **Other comprehensive (expense) income** | | | |
| ***Items that may be reclassified to profit or loss in subsequent periods*** | | | |
| – Exchange differences on translating foreign operation | | **(25,250)** | (3,567) |
| – Net change in debt investments measured at fair value through other comprehensive income | | **–** | 1,746 |
| – Release of translation reserve upon disposal of subsidiaries | | **–** | 35,612 |
| – Release of financial assets revaluation reserve upon disposal of subsidiaries | | **–** | (19,318) |
| | | **(25,250)** | 14,473 |
| **Total comprehensive expense for the year** | | **(2,547,655)** | (165,884) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2023*

| | Notes | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|---|
| **Loss for the year attributable to:** | | | |
| – Owners of the Company | | **(2,522,332)** | (180,205) |
| – Non-controlling interests | | **(73)** | (152) |
| | | **(2,522,405)** | (180,357) |
| **Total comprehensive expense attributable to:** | | | |
| – Owners of the Company | | **(2,547,582)** | (165,732) |
| – Non-controlling interests | | **(73)** | (152) |
| | | **(2,547,655)** | (165,884) |
| **Loss per share** | 14 | | (Restated) |
| – Basic (RMB cents) | | **(307.46)** | (25.00) |
| – Diluted (RMB cents) | | **(307.46)** | (25.00) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2023*

| | Notes | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **511,093** | 444,529 |
| Investment properties | 16 | **891,662** | 769,843 |
| Interests in associates | 17 | **127,712** | 360,366 |
| Goodwill | 18 | **–** | 86,034 |
| Finance lease, loan and account receivables | 19 | **–** | 30,075 |
| Other financial assets | 20 | **1,107** | 379,818 |
| Prepayments, deposits and other receivables | 21 | **2,294** | 811,439 |
| Deferred tax assets | 33 | **10,370** | 48,997 |
| | | **1,544,238** | 2,931,101 |
| **Current assets** | | | |
| Inventories of properties | 22 | **3,085,663** | 3,877,360 |
| Finance lease, loan and account receivables | 19 | **99,747** | 410,713 |
| Other financial assets | 20 | **346,122** | 92,164 |
| Prepayments, deposits and other receivables | 21 | **724,835** | 1,191,701 |
| Tax receivables | | **64,265** | 135,276 |
| Restricted bank deposits | 23 | **119,757** | 142,623 |
| Cash and bank balances – general accounts | 24 | **17,790** | 26,244 |
| Cash and bank balances – held on behalf of customers | 25 | **–** | 7,645 |
| | | **4,458,179** | 5,883,726 |
| **Current liabilities** | | | |
| Account payables | 26 | **451,901** | 395,779 |
| Accruals, other payables, deposits received and deferred income | 27 | **967,251** | 768,367 |
| Contract liabilities | 28 | **1,234,510** | 2,805,076 |
| Lease liabilities | 29 | **17,994** | 8,467 |
| Financial guarantees | 30 | **98,516** | 138,882 |
| Provision for taxation | | **461,668** | 332,256 |
| Bank and other borrowings | 31 | **1,562,030** | 647,510 |
| Corporate bonds | 32 | **669,447** | 653,961 |
| | | **5,463,317** | 5,750,298 |
| **Net current (liabilities) assets** | | **(1,005,138)** | 133,428 |
| **Total assets less current liabilities** | | **539,100** | 3,064,529 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2023*

| | *Notes* | **2023 RMB'000** | 2022 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Other payables and deposits received | 27 | **217,330** | 223,830 |
| Lease liabilities | 29 | **13,182** | 2,843 |
| Bank and other borrowings | 31 | **19,500** | – |
| Corporate bonds | 32 | **–** | 142,648 |
| Deferred tax liabilities | 33 | **122,146** | 170,336 |
| | | **372,158** | 539,657 |
| **Net assets** | | **166,942** | 2,524,872 |
| **EQUITY** | | | |
| Share capital | 34 | **18,741** | 14,734 |
| Reserves | | **148,426** | 2,510,290 |
| **Equity attributable to owners of the Company** | | **167,167** | 2,525,024 |
| **Non-controlling interests** | | **(225)** | (152) |
| **Total equity** | | **166,942** | 2,524,872 |

The consolidated financial statements were approved and authorised by the board of directors on 19 July 2024 and are signed on its behalf:

**Ng Chi Chung**
*Director*

**Feng Xiaogang**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31 December 2023*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 | Share premium RMB'000 *(Note (a))* | Merger and other reserves RMB'000 *(Note (b))* | Statutory reserve RMB'000 *(Note (c))* | Financial assets revaluation reserve RMB'000 *(Note (d))* | Translation reserve RMB'000 *(Note (e))* | Retained profits RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2022 | 14,734 | 1,619,971 | (1,184,215) | 180,449 | 17,572 | (13,987) | 2,086,868 | 2,721,392 | – | 2,721,392 |
| Loss for the year | – | – | – | – | – | – | (180,205) | (180,205) | (152) | (180,357) |
| Other comprehensive income (expense) for the year | – | – | – | – | (17,572) | 32,045 | – | 14,473 | – | 14,473 |
| Total comprehensive income (expense) for the year | – | – | – | – | (17,572) | 32,045 | (180,205) | (165,732) | (152) | (165,884) |
| Arising from acquisition of additional interests in a subsidiary | – | – | – | 34,917 | – | – | (34,917) | – | – | – |
| Disposal of subsidiaries | – | – | – | (118,054) | – | – | 118,054 | – | – | – |
| Transfer to statutory reserve | – | – | – | 19,221 | – | – | (19,221) | – | – | – |
| Final dividend paid | – | (30,636) | – | – | – | – | – | (30,636) | – | (30,636) |
| At 31 December 2022 | 14,734 | 1,589,335 | (1,184,215) | 116,533 | – | 18,058 | 1,970,579 | 2,525,024 | (152) | 2,524,872 |

| | **Attributable to owners of the Company** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital RMB'000** | **Share premium RMB'000** *(Note (a))* | **Merger and other reserves RMB'000** *(Note (b))* | **Statutory reserve RMB'000** *(Note (c))* | **Financial assets revaluation reserve RMB'000** *(Note (d))* | **Translation reserve RMB'000** *(Note (e))* | **Retained profits RMB'000** | **Sub-total RMB'000** | **Non-controlling interests RMB'000** | **Total RMB'000** |
| At 1 January 2023 | **14,734** | **1,589,335** | **(1,184,215)** | **116,533** | **–** | **18,058** | **1,970,579** | **2,525,024** | **(152)** | **2,524,872** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **(2,522,332)** | **(2,522,332)** | **(73)** | **(2,522,405)** |
| Other comprehensive expense for the year | **–** | **–** | **–** | **–** | **–** | **(25,250)** | **–** | **(25,250)** | **–** | **(25,250)** |
| Total comprehensive expense for the year | **–** | **–** | **–** | **–** | **–** | **(25,250)** | **(2,522,332)** | **(2,547,582)** | **(73)** | **(2,547,655)** |
| Transfer to statutory reserve | **–** | **–** | **–** | **29,588** | **–** | **–** | **(29,588)** | **–** | **–** | **–** |
| Issue of shares *(notes 34(1)(a) and (b))* | **4,007** | **185,718** | **–** | **–** | **–** | **–** | **–** | **189,725** | **–** | **189,725** |
| At 31 December 2023 | **18,741** | **1,775,053** | **(1,184,215)** | **146,121** | **–** | **(7,192)** | **(581,341)** | **167,167** | **(225)** | **166,942** |

For the Company's subsidiary operated in financial guarantee business in the People's Republic of China (the "PRC"), amount of approximately RMB25,023,000 as at 31 December 2023 (2022: RMB25,023,000) which was set aside in the PRC books of accounts as reserve in accordance with the relevant rules governing the financial guarantee business in the PRC for non-matured obligation and guarantee indemnity reserve and was not distributable.

*Notes:*

**(a) Share premium**

The share premium account of the Group represents the excess of the proceeds received over the nominal value of the Company's shares issued, net of share issue costs.

**(b) Merger and other reserves**

The merger reserve of the Group arose as a result of (a) the reorganisation ("Reorganisation") carried amount by the Group to rationalise the Group's structure in preparation for the listing of the Company's share and other business combination under common control; (b) gains (losses) arising from changes in Group's interests in subsidiaries that do not result in a loss of control; and (c) the capital contributions by the ultimate controlling shareholder.

**(c) Statutory reserve**

The statutory reserve represents appropriation of profits of the PRC subsidiaries to non-distributable reserve fund account as required by the relevant PRC statue.

**(d) Financial assets revaluation reserve**

The financial assets revaluation reserve represents fair value reserve comprises the cumulative net change in the fair value of financial instruments designated at fair value through other comprehensive income that are held at the end of the reporting period.

**(e) Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policies of the Company.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2023*

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before income tax | **(2,349,094)** | (129,805) |
| Adjustments for: | | |
| Bank and other interest income | **(50,033)** | (22,897) |
| Interest expenses | **129,572** | 73,582 |
| Depreciation of property, plant and equipment | **7,726** | 15,681 |
| Share of results of associates | **232,654** | 9,814 |
| Change in fair value of investment properties | **155,166** | (14,444) |
| Gain on disposal of property, plant and equipment | **(468)** | (208) |
| Impairment loss on goodwill | **86,034** | 9,997 |
| Write off of property, plant and equipment | **–** | 734 |
| Impairment loss on inventories of properties | **162,182** | 47,341 |
| Change in fair value of other financial assets | **67,789** | (41,742) |
| Loss from derecognition of other financial assets | **–** | 14,400 |
| Loss on disposal of other financial assets | **1,685** | – |
| Provision for financial guarantees | **–** | 138,068 |
| Reversal of provision for financial guarantees | **(42,691)** | (23,032) |
| Provision for impairment loss on financial assets | **2,075,891** | 89,558 |
| Reversal of impairment loss on financial assets | **(1,582)** | (8,178) |
| Losses on disposal of subsidiaries | **47,223** | 58,484 |
| Gain on bargain purchase arising from acquisition of subsidiaries | **–** | (28,866) |
| Operating profit before working capital changes | **522,054** | 188,487 |
| Decrease (increase) in inventories of properties | **938,482** | (84,844) |
| Increase in finance lease, loan and account receivables, net of deferred income | **(529,596)** | (59,973) |
| Increase in prepayments, deposits and other receivables | **(258,127)** | (362,014) |
| Decrease in restricted bank deposits | **22,866** | 85,431 |
| Decrease (increase) in cash and bank balances – held on behalf of customers | **7,645** | (2,160) |
| Increase (decrease) in account payables | **23,757** | (73,458) |
| Increase in accruals, other payables and deposits received | **121,020** | 127,830 |
| (Decrease) increase in contract liabilities | **(1,570,566)** | 115,733 |
| Cash used in operations | **(722,465)** | (64,968) |
| Interests received | **2,009** | 22,897 |
| Income tax paid | **(50,749)** | (121,627) |
| Net cash used in operating activities | **(771,205)** | (163,698) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 31 December 2023*

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(74,167)** | (155,530) |
| Receipt of government grant related to property, plant and equipment | **–** | 80,000 |
| Proceeds from disposal of property, plant and equipment | **598** | 1,504 |
| Investments in other financial assets | **(35,200)** | (88,220) |
| Proceeds from disposal of other financial assets | **92,574** | 28,560 |
| Acquisition of subsidiaries, net of cash and cash equivalents | **920** | (76,971) |
| Disposal of subsidiaries, net of cash and cash equivalents disposal of | **1,993** | 112,528 |
| Net cash used in investing activities | **(13,282)** | (98,129) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of shares | **189,725** | – |
| Proceeds from issue of corporate bonds | **138,781** | 620,806 |
| Proceeds from bank and other borrowings | **913,769** | 156,407 |
| Repayments of bank and other borrowings | **(94,873)** | (292,721) |
| Repayments of corporate bonds | **(284,048)** | (179,673) |
| Repayments of lease liabilities | **(19,073)** | (22,145) |
| Interest paid | **(68,913)** | (64,221) |
| Dividend paid | **–** | (30,636) |
| Net cash generated from financing activities | **775,368** | 187,817 |
| **Net decrease in cash and cash equivalents** | **(9,119)** | (74,010) |
| **Cash and cash equivalents at beginning of the year** | **26,244** | 100,006 |
| Effect of foreign exchange rates, net | **665** | 248 |
| Cash and cash equivalents at end of the year | **17,790** | 26,244 |
| **Analysis of balances of cash and cash equivalents** | | |
| **Cash and cash equivalents as stated in the consolidated statement of cash flows and consolidated statement of financial position** | **17,790** | 26,244 |

# NOTES TO THE FINANCIAL STATEMENTS

*31 December 2023*

## 1. GENERAL INFORMATION

Differ Group Auto Limited (the "Company") was incorporated in the Cayman Islands on 4 December 2012 as an exempted company with limited liability under the Cayman Companies Law and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the *Corporate Information* section to the annual report.

The Company acts as an investment holding company. The Company and its subsidiaries (the "Group") are mainly engaged in (i) assets management business (mainly including property development and investment); (ii) provision of financial related services (mainly including finance lease services and express loan services); (iii) commodity trading business; and (iv) automobile e-commerce business.

The functional currency of the Company is Hong Kong Dollar ("HK$"). The consolidated financial statements are presented in Renminbi ("RMB") since most of the companies comprising the Group are operating in RMB environment and the functional currency of most of the companies comprising the Group is RMB.

The English names of all the companies established in the PRC presented in these consolidated financial statements represent the best efforts made by the directors of the Company for the translation of the Chinese names of these companies to English names as they do not have official English names.

## 2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

### (a) The Scheme and Proposed Restructuring

As disclosed in the announcements of the Company dated 16 June 2023, 20 June 2023, 4 July 2023, 23 August 2023, 30 August 2023, 20 September 2023, 18 October 2023, 30 October 2023, 5 January 2024, and 23 April 2024, 6 June 2024 and 19 July 2024, and the circular of the Company dated 26 January 2024 respectively (collectively, the "Announcements and Circular"), the Company is facing the winding up petition filed by its creditors. The winding up proceedings remain in process at the High Court of Hong Kong, while the Company has applied to the High Court of Hong Kong for a proposed scheme of arrangement (i.e. the "Scheme", as explained below) to be entered into between the Company and certain creditors of the Scheme (i.e. the "Scheme Creditors", as explained below).

On 30 June 2023, the Company has appointed a restructuring adviser (the "Restructuring Adviser") to liaise with the Company's creditors and to assist in the formulation of a restructuring plan. With the help of its Restructuring Adviser, the Board was able to formulate the terms of the proposed restructuring (the "Proposed Restructuring", as explained below), which the Board considers to be in the interest of all of the stakeholders in the Company, including the scheme creditors (the "Scheme Creditors").

**2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS – continued**

**(a) The Scheme and Proposed Restructuring – continued**

On 6 June 2024, the High Court of Hong Kong has granted an order to the Company to convene a meeting of the creditors of the Company for the Scheme. Such creditors' meeting is tentatively scheduled to be held on 16 August 2024 and the sanction hearing of the High Court of Hong Kong for the Scheme is tentatively fixed on 17 September 2024.

Pursuant to the Company's announcement dated 19 July 2024, the Proposed Restructuring comprises two main components namely (i) Increase in Authorised Share Capital; and (ii) the Scheme and details of which are as following:

1. The Increase in Authorised Share Capital: to facilitate the issuance of scheme shares (the "Scheme Shares"), the Company will reorganise its capital by increasing its authorised share capital from HK$250,000,000 divided into 10,000,000,000 shares to HK$2,500,000,000 divided into 100,000,000,000 shares.

2. The Scheme: the scheme claims (the "Scheme Claims") of the Scheme Creditors against the Company as at the effective date of the Scheme (the "Effective Date") will be discharged and released in full. In return, the Scheme Creditors whose claims are admitted will be entitled to the benefit of the scheme consideration which consists of the Scheme Shares.

Under the Scheme, the Scheme Claims of the Scheme Creditors will be compromised and discharged. In return, the Scheme Creditors with admitted claims will be entitled to receive the Scheme Shares. The Scheme Claims to be compromised essentially comprise any debt, liability or obligation of the Company which arose on or before the Effective Date but excludes the excluded claims (the "Excluded Claims"). Excluded Claims include Preferential Claims, Secured Claims, Operational Claims and Petition Costs.

Further, under the Scheme, it is proposed that the Company will settle the Scheme Claims by way of, among other things, the issuance of Scheme Shares, which shall settle the relevant amount of the Scheme Claims on a dollar to dollar basis.

The Scheme Shares shall be allotted and issued at the Scheme Share issue price of HK$0.0904 per Scheme Share in respect of the admitted claims. The Scheme Shares will be allotted and issued under the name of the relevant Scheme Creditors, but the physical certificates of the Scheme Shares will be placed in the custody of the scheme company. The Scheme Shares will be subject to various lock-up periods in accordance with the lock up arrangement and will have the benefit of the make good undertaking, meaning that the Company will appoint the scheme placing agent at its own expense to facilitate the placing of the Scheme Shares and will provide compensation if such shares are disposed of at a price less than the relevant guaranteed selling prices.

Further details of the above are set out in the Announcements and Circular.

## 2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS – continued

### (b) Going concern basis and liquidity

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

For the year ended 31 December 2023, the Group incurred a net loss attributable to the shareholders of the Company of approximately RMB2,522,332,000 (2022: RMB180,205,000) and a net operating cash outflow of approximately RMB771,205,000 (2022: RMB163,698,000), and as of that date, the Group had net current liabilities of approximately RMB1,005,138,000 (2022: net current assets of approximately RMB133,428,000).

As described in notes 31 and 32, the Group was in default in most of the bank and other borrowings and corporate bonds as at 31 December 2023 due to the events of default of late or overdue payment of loan principal and interest or cross default of the Group's borrowings, which, as a consequence, would be immediately repayable if and when requested by the lenders.

Moreover, as described in note 2(a) above, the Company was served with a winding-up petition from a corporate bond holder issued with the High Court of Hong Kong for the winding-up of the Company.

The conditions described above indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business.

In view of aforementioned, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial sources to continue as a going concern. The following measures and plans are formulated to mitigate the liquidity pressure and to improve the financial position of the Group:

(i) The Company proposed the scheme of arrangement (the "Scheme", as described in note 2(a)) and formulated the terms of the proposed debt restructuring of the Company (the "Proposed Restructuring", as described in note 2(a)) to restructure its indebtedness payables to Scheme Creditors;

**2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS – continued**

**(b) Going concern basis and liquidity – continued**

(ii) The Group maintains continuous communication with other lenders and creditors and the directors believe that the existing borrowings available to the Group will be successfully restructured and renewed when their current terms expire given the long standing relationship the Group has with the relevant counter parties (the "Financing Restructuring Plan");

(iii) The Group has been actively monitoring its finance lease, loan and account receivables and other receivables to ensure their collectability upon their maturity and payment to the subcontractors and suppliers request by the Group so as to complete the Group's construction projects as scheduled. In addition, the Group will retain sufficient fund in order to alleviate the Group's liquidity pressure;

(iv) The Group will continue to focus in maintaining its inventories of properties and adopting a more proactive sale strategy to attract purchasers. The directors of the Company expect that there will have a recovery of the PRC's economy from the effects of the COVID-19 pandemic, especially the recent measures imposed by the PRC government to stabilise the properties market that will enhance the growth of the Group's property business and thus, the Group's cash flows will be improved.

According to the current properties' construction schedule, the directors of the Company estimate that most of its current properties' construction will be completed in financial year ending 31 December 2025 and with the completion and promotion of sales of inventories of properties, the directors expect that the Group is able to obtain cash flows from its property development business, such as among five (5) major properties development projects of the Group, the construction of the three (3) projects (Differ Humane Mansion, the People Ancient City and ChuZhouFu City) were completed and the construction of two (2) projects (Differ Sky Peak and Differ One City) is still in progress. The directors of the Company consider that the Group will generate satisfactory income and cash flows from the sales of properties in the coming years.

The Group will continue to generate operating cash flows for the next twelve months by implementing various strategies to improve the Group's income from property development and investment, financial services and automobile e-commerce to generate additional operating cash inflows (the "Funds from Operations and Businesses"); and

**2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS – continued**

**(b) Going concern basis and liquidity – continued**

(v) The Group will also continue to seek for other additional and alternative financing to finance the settlement of its existing financial obligations and future operating expenditures (the "Additional and Alternative Sources of Financing").

The directors of the Company have reviewed the Group's cash flow forecast, which covers a period of at least twelve months from 31 December 2023. They are of the opinion that, taking into account the abovementioned measures and plans the Group will have sufficient funds to maintain its operations and to meet its financial obligations as and when they fall due within the next twelve months from 31 December 2023. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to achieve its measures and plans, which are subject to multiple uncertainties as described above. Whether the Group will be able to continue as a going concern would depend upon the following:

(i) The successful execution and completion of the Scheme and Proposed Restructuring in restructuring indebtedness payables to Scheme Creditors;

(ii) The successful execution and completion of the Financing Restructuring Plan in restructuring and renewal its existing borrowings from those other lenders and creditors when their current terms expire;

(iii) The recovery of the real estate sector and other businesses to generate cash inflow from its operations, settlement of various receivables upon their maturity and payment request by the Group as planned and scheduled;

(iv) The successful in obtaining Funds from Operations and Businesses in accordance with the timeline of the cash flow projection reviewed by the directors of the Company; and

(v) The successful in obtaining Additional and Alternative Sources of Financing other than those mentioned above in meeting its financial obligations as and when they need.

**2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS – continued**

**(b) Going concern basis and liquidity – continued**

The Group's ability to obtain the abovementioned financing and operating funds depends on: (i) current and ongoing regulatory environments and how the relevant policies and measures might affect the Group and/or the relevant financial institutions; and (ii) whether the lenders and creditors of existing bank and other borrowings are agreeable to the terms and conditions for such extension or renewal and the Group's ability to continuously comply with the relevant terms and conditions of bank and other borrowings.

Should the Group fail to achieve the abovementioned measures and plans, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down 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 non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

**3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND CHANGES IN OTHER ACCOUNTING POLICIES**

**New and amendments to HKFRSs that are mandatorily effective for the current year**

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

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

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

**3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND CHANGES IN OTHER ACCOUNTING POLICIES – continued**

**Impacts on application of Amendments to HKAS 8 Definition of Accounting Estimates**

The Group has applied the amendments for the first time in the current year. 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. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current year had no material impact on the consolidated financial statements.

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

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

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

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

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

**3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND CHANGES IN OTHER ACCOUNTING POLICIES – continued**

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

***Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund ("MPF") – Long Service Payment ("LSP") offsetting mechanism in Hong Kong***

As disclosed in note 44, the Group has several subsidiaries operating in Hong Kong which are obliged to pay LSP to employees under certain circumstances. Meanwhile, the Group makes mandatory and voluntary MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee's accrued retirement benefits derived from employers' MPF contributions was allowed under the Employment Ordinance (Cap.57). In June 2022, the Government of the HKSAR gazetted the *Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022* (the "Amendment Ordinance") which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset severance payment and LSP (the "Abolition"). The Abolition will officially take effect on 1 May 2025 (the "Transition Date"). In addition, under the Amendment Ordinance, the last month's salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date.

In July 2023, the HKICPA published "*Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong*" which provides guidance for the accounting for the offsetting mechanism and the impact arising from abolition of the MPF-LSP offsetting mechanism in Hong Kong. In light of this, the Group has implemented the guidance published by the HKICPA in connection with the LSP obligation retrospectively so as to provide more reliable and more relevant information about the effects of the offsetting mechanism and the Abolition.

The Group considered the accrued benefits arising from employer MPF contributions that have been vested with the employee and which could be used to offset the employee's LSP benefits as a deemed contribution by the employee towards the LSP. Historically, the Group has been applying the practical expedient in paragraph 93(b) of HKAS 19 *Employee Benefits* to account for the deemed employee contributions as a reduction of the service cost in the period in which the related service is rendered.

**3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND CHANGES IN OTHER ACCOUNTING POLICIES – continued**

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

***Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund ("MPF") – Long Service Payment ("LSP") offsetting mechanism in Hong Kong – continued***

Based on the HKICPA's guidance, as a result of the Abolition, these contributions are no longer considered "linked solely to the employee's service in that period" since the mandatory employer MPF contributions after the Transition Date can still be used to offset the pre-transition LSP obligation. Therefore, it would not be appropriate to view the contributions as "independent of the number of years of service" and the practical expedient in paragraph 93(b) of HKAS 19 *Employee Benefits* is no longer applicable. Instead, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit applying paragraph 93(a) of HKAS 19 *Employee Benefits*. Accordingly, the Group has recognised a cumulative catch-up adjustment in profit or loss for the service cost, interest expense and remeasurement effect from changes in actuarial assumptions for the year ended 31 December 2022, with corresponding adjustment to the LSP obligation. The cumulative catch-up adjustment is calculated as the difference at the enactment date (16 June 2022) between the carrying amount of the LSP liability calculated under paragraph 93(b) of HKAS 19 *Employee Benefits* before the Abolition and the carrying amount of the LSP liability calculated under paragraph 93(a) of HKAS 19 *Employee Benefits* after the Abolition.

The directors of the Company consider that the changes in the Group's accounting policy in the current year had no material impact on the consolidated financial statements.

**3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND CHANGES IN OTHER ACCOUNTING POLICIES – continued**

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

***Amendments to HKFRSs in issue but not yet effective***

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

| | |
|---|---|
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1] |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback[2] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2] |
| Amendments to HKAS 1 | Non-current Liabilities with Covenants[2] |
| Amendments to HKAS 7 and HKFRS 7 | Supplier Finance Arrangements[2] |
| Amendments to HKAS 21 | Lack of Exchangeability[3] |

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

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

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

The directors of the Company anticipate that the application of all other amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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

### (a) Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. 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. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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

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

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

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(a) Basis of preparation of consolidated financial statements – continued**

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

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

**(b) Material accounting policy information**

The principal accounting policies are set out below.

***Basis of consolidation***

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

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

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

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION − continued**

**(b) Material accounting policy information − continued**

***Basis of consolidation − continued***

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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 the Group's accounting policies.

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

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Basis of consolidation – continued***

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.

*Changes in the Group's interests in existing subsidiaries*

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries, including re-attribution of relevant reserves between the Group and the non- controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

4. **BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

(b) **Material accounting policy information – continued**

***Business combinations or asset acquisitions***

*Optional concentration test*

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

*Asset acquisitions*

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

*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, other than business combination under common control 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.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Business combinations or asset acquisitions – continued***

*Business combinations – continued*

The identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") except for transactions and events within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies*, 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 *Leases*) 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 MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Business combinations or asset acquisitions – 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.

4. **BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

(b) **Material accounting policy information – continued**

***Business combinations or asset acquisitions – continued***

*Business combinations – continued*

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

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

***Goodwill***

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's 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 to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued

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

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Investments in associates – continued***

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

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9 Financial Instruments, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

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

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

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Investments in associates – continued***

*Changes in the Group's interests in associates and joint ventures*

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

*Acquisition of additional interests in associates*

When the Group increases its ownership interest in an associate but the Group continues to use the equity method, goodwill is recognised at acquisition date if there is excess of the consideration paid over the share of carrying amount of net assets attributable to the additional interests in associates acquired. Any excess of share of carrying amount of net assets attributable to the additional interests in associates acquired over the consideration paid are recognised in the profit or loss in the period in which the additional interest are acquired.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***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 and 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 and 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.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued

### (b) Material accounting policy information – continued

***Revenue from contracts with customers – continued***

*Principal versus agent*

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

*Contract costs*

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Revenue from contracts with customers – continued***

*Contract costs – continued*

Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its business activities, e.g. service contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Further information about the Group's accounting policies relating to contracts with customers is provided in note 7 to the consolidated financial statements.

***Leases***

*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 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 Leases 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 MATERIAL ACCOUNTING POLICY INFORMATION − continued**

**(b) Material accounting policy information − continued**

***Leases − continued***

*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, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of rental premises that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

*Right-of-use assets*

The cost of right-of-use assets 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.

The Group accounts for leasehold land and buildings that are held for rental or capital appreciation purpose under HKAS 40 that are classified as investment properties and measured under fair value model. The Group accounts for leasehold land and buildings which is held for own use under HKAS 16 and are carried at depreciated cost. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use assets arising from the properties under tenancy agreements are carried at depreciated cost.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Leases – continued***

*Right-of-use assets – continued*

Right-of-use assets related to leasehold interests where the interest in the land is held as inventories of properties are included in the same line item as inventories of properties as that within the corresponding assets.

Except for those that are classified as investment properties and measured under fair value model, 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 are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory in "property, plant and equipment", that same line within which the corresponding underlying assets would be presented if they were owned. Right-of-use assets that meet the definition of investment property are presented within "investment properties" and inventory are presented within investment properties", "properties held for sales" and "properties held development", respectively.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* 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.

*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.

4. **BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Leases – continued***

*Lease liabilities – continued*

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 expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Leases – continued***

*Lease liabilities – continued*

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 one or more additional 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. The associated non-lease components are included in the respective lease components.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Leases – continued***

*The Group as a lessor*

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.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

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 ("HKFRS 15") 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.

Refundable rental deposits

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

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Leases – continued***

*The Group as a lessor – continued*

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

(i) Operating leases

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

For rent concession under which the Group legally releases the lessee from its obligation to make specifically identified lease payment, of which some of these lease payments are contractually due but not paid and some of them are not yet contractually due, the Group accounts for the portions which have been recognised as operating lease receivables (i.e. the lease payments which are contractually due but not paid) by applying the ECL and derecognition requirements under HKFRS 9 *Financial Instruments* and applies lease modification requirements for the forgiven lease payments that the Group has not recognised (i.e. the lease payments which are not yet contractually due) as at the effective date of modification.

(ii) Finance leases

The Group accounts for a change in the lease payments of a finance lease as a lease modification, that is not accounted for as a separate lease, in accordance with the requirements of HKFRS 9 *Financial Instruments*. If the change represents a substantial modification, the finance lease receivables of the original lease are derecognised and a derecognition gain or loss calculated using the revised lease payments discounted at the revised discount rate is recognised in profit or loss on the date of the modification. If the change does not represent a substantial modification, the Group continues to recognise the finance lease receivables in which such carrying amount will be calculated at the present value of the modified contractual cash flows discounted at the related receivables' original discount rate. Any adjustment to the carrying amount is recognised in profit or loss at the effective date of modification.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued

### (b) Material accounting policy information – continued

***Foreign currencies***

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of transaction reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Foreign currencies – continued***

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

***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. For properties under development for which revenue is recognised over time, the Group ceases to capitalise borrowing costs as soon as the properties are ready for the Group's intended 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.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Government grants***

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Where the grant relates to an asset measured at fair value, the grant is deducted from the carrying amount of the asset and recognised in profit or loss in the same year.

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

***Employee benefits***

*Retirement benefit costs*

Employees in the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentage of the average employee salary as agreed by local municipal government to the scheme to fund the retirement benefits of the employees.

The Group also participates in a pension scheme under the rules and regulations of the MPF Scheme for all employees in Hong Kong. The contributions to the MPF Scheme are based on minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income, subject to a ceiling of HK$1,500 per month per head.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Employee benefits – continued***

*Bonus plans*

The expected cost of bonus plan is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

*Termination benefits*

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

*Short-term employee benefits*

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

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

4. **BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Share-based payments***

*Equity-settled share-based payment transactions*

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share capital and share premium, if appropriate. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share- based payments reserve will be transferred to retained profits.

When shares granted are vested, the amount previously recognised in share-based payments reserve will be transferred to share capital and share premium, if appropriate.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Taxation***

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

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

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

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

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.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Taxation – continued***

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Property, plant and equipment***

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

Construction in progress in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Depreciation is calculated on the straight-line method to write off the cost of each item of property, plant and equipment to its estimated residual value over its estimated useful life, as follows:

| | |
|---|---|
| Leasehold improvement | The shorter of the lease terms and 5 years |
| Motor vehicles | 4 to 5 years |
| Furniture, fixtures and office equipment | 3 to 5 years |
| Other properties leased for own use | The shorter of asset's expected useful lives and lease terms |

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.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Investment properties***

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes).

Investment properties also include leased properties which are being recognised as right-of-use assets and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under development comprises development expenditure including professional charge directly attributable to the development and borrowing costs, and these costs are capitalised as part of the carrying amount of the investment properties under development.

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. A leased property which is recognised as a right-of-use asset is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. 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.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Impairment on non-current assets, including property, plant and equipment and right-of-use assets and contract costs other than goodwill***

At the end of the reporting period, the Group reviews the carrying amounts of its non-current assets with finite useful lives and contract costs 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). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

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.

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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 pretax 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 MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Impairment on non-current assets, including property, plant and equipment and right-of-use assets and contract costs 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.

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.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Cash and cash equivalents***

Bank balances and cash 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 and restricted deposits arising from pre-sale of properties that are held for meeting short-term cash commitments. 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 bank balances and cash as defined above.

Bank balances for which use by the Group is subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash. Contractual restrictions affecting use of bank balances are disclosed in notes 23, 24 and 25.

***Inventories of properties, including properties under development and properties held for sales***

Properties under development which are intended to be sold upon completion of development and properties held for sale are included in current assets at the lower of cost and net realisable value. Development cost of property comprises construction costs, depreciation of machinery and equipment, amortisation of land use rights, borrowing costs on qualifying assets and professional fees incurred during the development period. Upon completion, the properties are transferred to completed properties held for sales.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable selling expenses and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Inventories of properties, including properties under development and properties held for sales – continued***

Properties under development are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

***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).

***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.

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.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued

### (b) Material accounting policy information – continued

***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 *Revenue from Contracts with Customers*. 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.

Interest which are derived from the Group's ordinary course of business are presented as revenue.

## 4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued

### (b) Material accounting policy information – continued

***Financial instruments – continued***

*Financial assets*

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income 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:

- 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.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Financial instruments – continued***

*Financial assets – continued*

Classification and subsequent measurement of financial assets – continued

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.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit- impaired (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.

(ii) 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 investment revaluation reserve; 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 continue to be held in the investment revaluation reserve.

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, gains and losses, net" line item in profit or loss.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION − continued**

**(b) Material accounting policy information − continued**

***Financial instruments − continued***

*Financial assets − continued*

Classification and subsequent measurement of financial assets − continued

(iii) Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including finance lease, loan and account receivables, deposits and other receivables, amounts due from an associate and related companies, restricted bank deposits and bank balances) and other items (financial guarantee contracts) which are subject to impairment assessment under HKFRS 9 *Financial Instruments*. 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 without significant financing component.

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 MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Financial instruments – continued***

*Financial assets – continued*

Impairment of financial assets and other items 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 results in a significant decrease in the debtor's ability to meet its debt obligations.

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

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Financial instruments – continued***

*Financial assets – continued*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 – continued

(i) Significant increase in credit risk – continued

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

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

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

(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.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION − continued**

**(b) Material accounting policy information − continued**

***Financial instruments − continued***

*Financial assets − continued*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 − continued

(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 debtor;
- a breach of contract, such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security 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 MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Financial instruments – continued***

*Financial assets – continued*

Impairment of financial assets and other items 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.

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. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 *Leases*.

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

For ECL on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

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

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION − continued**

**(b) Material accounting policy information − continued**

***Financial instruments − continued***

*Financial assets − continued*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 − continued

(v) Measurement and recognition of ECL − continued

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.

Except for financial guarantee contracts, 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 account receivables where the corresponding adjustment is recognised through a loss allowance account.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Financial instruments – continued***

*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 investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

*Financial liabilities and equity*

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the 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 amortised cost

Financial liabilities including account payables, other payables, borrowings, debt component of convertible bonds and senior notes and bond are subsequently measured at amortised cost, using the effective interest method.

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Financial instruments – continued***

*Financial liabilities and equity – continued*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9 *Financial Instruments*; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition/modification 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.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

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 MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Related parties***

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

(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 key management personnel of the Group or the parent of the Company.

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

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

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

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

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

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

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

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

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

**4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION – continued**

**(b) Material accounting policy information – continued**

***Related parties – continued***

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

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

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

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

(iii) dependents of that person or that person's spouse or domestic partner.

***Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### *Going concern and liquidity*

As explained in note 2(b), the consolidated financial statements have been prepared on a going concern basis and have not included any adjustments that would be required should the Group fail to continue as a going concern since the directors of the Company are satisfied that the liquidity of the Group can be maintained in the coming year after taking into the considerations as detailed in note 2(b). The directors of the Company also believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements for the next twelve months from 31 December 2023.

#### *Principal versus agent consideration*

In assessing whether the Group is acting as a principal or an agent in a transaction, the management assesses if the Group obtained control of goods before they are transferred to customers. The Group is a principal if it controls the promised goods before transferring it to the customer and revenue is recognised on a gross basis. Otherwise, the Group is an agent and revenue is recognised on a net basis.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY − continued

### Critical judgements in applying accounting policies − continued

***Subsidiary governed under structured agreements***

As explained in note 44, the Group conducts its provision of e-commerce through a subsidiary governed under structured agreements (the "Structured Subsidiary Agreements") (the "Structured Subsidiary"). The Group does not have any equity interests in the Structured Subsidiary. The directors assessed whether or not the Group has control over the Structured Subsidiary based on whether the Group has the power over the Structured Subsidiary, has right to variable returns from its involvement with the Structured Subsidiary and has the ability to affect those returns through its power over the Structured Subsidiary. After assessment, the directors concluded that the Group has control over the Structured Subsidiary as a result of the Structured Subsidiary Agreements and accordingly, the Group has consolidated the financial position and results of the Structured Subsidiary in the consolidated financial statements for the years ended 31 December 2023 and 31 December 2022.

Nevertheless, the Structured Subsidiary Agreements may not be as effective as legal ownership in providing the Group with control over the Structured Subsidiary and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Structured Subsidiary. The directors, based on the advice of their legal counsels, consider that the Structured Subsidiary Agreements are in compliance with the relevant PRC laws and regulations and are legally binding and enforceable.

***Significant influence over Zhongcheng***

As described in note 17, through the Trusting Arrangement, Zhongcheng City Development Group Co., Limited ("Zhongcheng") is an associate of the Group.

In assessing whether the Group's investment in Zhongcheng should be accounted for using equity method under Hong Kong Accounting Standard 28 (2011) "*Investment in Associates and Joint Ventures*", the directors of the Company consider that through the Trusting Arrangement, the Trustee (both are defined in note 17) holds 49% equity interest in Zhongcheng on behalf of the Group. The Group is the beneficial owner of 49% equity interest in Zhongcheng and further, the Trustee is not obliged to and has no obligation to pay the consideration relating to the transfer of 49% equity interest in Zhongcheng to the Trustee under the Share Transfer Agreement (as defined in note 17). Taking into account for these factors, the Group has the power and rights to participate in the financial and operating policy decisions of Zhongcheng in accordance with Hong Kong Accounting Standard 28 (2011) "*Investment in Associates and Joint Ventures*" and accordingly, Zhongcheng is still an associate of the Group.

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

**Key sources of estimation uncertainty**

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

***Impairment of financial assets***

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At the end of each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

As at 31 December 2023 and 31 December 2022, the details of finance lease, loan and account receivable, consideration receivables, amount due from an associate, other receivables, restricted bank deposits and cash and bank balances are set out in notes 19, 21, 23, 24 and 25.

***Impairment of non-financial assets (other than goodwill)***

The Group assesses at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of the asset. This may require an estimation of the value-in-use of the CGU to which the asset is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

As at 31 December 2023 and 31 December 2022, the details of property, plant and equipment are set out in note 15.

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

**Key sources of estimation uncertainty – continued**

***Impairment of goodwill***

The Group test whether goodwill has suffered any impairment on an annual basis. Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU to which goodwill has been allocated. Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU to which goodwill has been allocated. For the purposes of impairment testing, goodwill is allocated to its respective CGUs. The recoverable amounts of the CGUs have been determined based on value-in-use or fair value less cost of disposal, whichever is higher. The value in use calculation derived from the most recent budget plan approved by the management requires the management to estimate the future cash flows expected to arise from the CGUs and a suitable discount rate and future revenue growth rate to calculate the present value for those cash flows.

As at 31 December 2023 and 31 December 2022, the details of goodwill are set out in note 18.

***Income taxes***

The Group is mainly subject to income taxes in jurisdictions in Hong Kong and the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred income tax provisions in the period in which such determination is made.

The Group is subject to land appreciation tax ("LAT") in the PRC. However, the implementation and settlement of these taxes varies among various tax jurisdictions in cities of the PRC, and the Group has not yet been finalised its LAT calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related taxes. The Group recognises these LAT based on management's best estimates according to the understanding of the tax rules, by using a single best estimate of the most likely outcome approach. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax expense and deferred tax provisions in the periods in which such taxes have been finalised with local tax authorities.

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

**Key sources of estimation uncertainty – continued**

***Fair value of investment properties***

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates of market condition. In relying on the valuation report, the directors have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair value of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of comprehensive income.

As at 31 December 2023 and 31 December 2022, the details of investment properties are set out in note 16.

***Net realisable value of inventories of properties***

The Group assesses the carrying amounts of inventories of properties according to their estimated net realisable value based on the realisability of these properties, taking into account construction costs to completion based on the existing development plans and the estimation of selling prices of the properties of comparable locations and conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of significant estimates.

As at 31 December 2023 and 31 December 2022, the details of inventories of properties are set out in note 22.

***Provision of financial guarantee contracts***

Financial guarantee contracts issued by the Group are initially measured at their fair values and subsequently measured at the higher of (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period. The directors have exercised their judgment in determining the probability whether the creditors will demand the Group to settle the remaining outstanding amount of the subject debts under the contracts and also the probable cash flow amount of the obligation under the financial guarantee contract provided by the Group. A change in the above assessments will result in an adjustment to the provision of the contract previously recognised.

As at 31 December 2023 and 31 December 2022, the details of provision of financial guarantee contracts are set out in note 30.

## 6. SEGMENT INFORMATION

The operating segments are reported in a manner consistent with the way in which information is reported internally to the Company's executive directors for the purposes of resource allocation and assessment of segment performance. The Company's executive directors who are also the CODM have identified the reportable segments of the Group as follows:

(1) Financial services – provision of guarantee services, express loan services, consultancy services, finance lease services, financial securities services and assets management (investments in distressed assets, equities and management of funds) in the PRC and Hong Kong;

(2) Property development and investment – property development projects and property investment activities in the PRC;

(3) Trading of commodities – trading of commodities in the PRC; and

(4) Automobile e-commerce – online e-commerce platform in the automobile industry in the PRC.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4(b).

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments. Segment revenue represents revenue from external customers and inter-segment revenue. Segment results exclude unallocated corporate expenses and unallocated finance costs. Corporate expenses include expenses incurred by corporate headquarters which are not allocated to the operating segments. Each of the operating segments is managed separately as the resources requirement of each of them is different.

Sales between segments are carried out in accordance with terms agreed by the parties involved.

Segment assets include all assets other than corporate assets such as property, plant and equipment, deposits and prepayments and cash and bank balances that are managed on a group basis.

Segment liabilities include all liabilities other than corporate liabilities such as accruals and other payables, lease liabilities, other borrowings and corporate bonds that are managed on a group basis.

## 6. SEGMENT INFORMATION – continued

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

| | Financial services | Property development and investment | Trading of commodities | Automobile e-commerce | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **For the year ended 31 December 2023** | | | | | |
| **Segment revenue** | | | | | |
| Revenue from external customers | **119,089** | **2,061,569** | **59,319** | **11,616** | **2,251,593** |
| Inter-segment revenue | **(1,283)** | **1,283** | **–** | **–** | **–** |
| | **117,806** | **2,062,852** | **59,319** | **11,616** | **2,251,593** |
| **Segment results** | **(1,579,247)** | **22,406** | **(8,704)** | **(657,052)** | **(2,222,597)** |
| Unallocated corporate expenses | | | | | **(57,274)** |
| Unallocated finance costs | | | | | **(69,223)** |
| **Loss before income tax** | | | | | **(2,349,094)** |
| **For the year ended 31 December 2022** | | | | | |
| **Segment revenue** | | | | | |
| Revenue from external customers | 184,776 | 417,625 | 269,531 | 135,790 | 1,007,722 |
| Inter-segment revenue | (8,799) | 8,799 | – | – | – |
| | 175,977 | 426,424 | 269,531 | 135,790 | 1,007,722 |
| **Segment results** | (98,648) | 29,094 | (16,556) | 10,616 | (75,494) |
| Unallocated corporate expenses | | | | | (10,219) |
| Unallocated finance costs | | | | | (44,092) |
| **Loss before income tax** | | | | | (129,805) |

**6. SEGMENT INFORMATION – continued**

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable segment:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Segment assets** | | |
| Financial services | **1,307,910** | 2,317,733 |
| Property development and investment | **4,676,720** | 6,373,989 |
| Trading of commodities | **517** | 3,517 |
| Automobile e-commerce | **12,222** | 103,929 |
| Total segment assets | **5,997,369** | 8,799,168 |
| **Unallocated** | | |
| – Property, plant and equipment | **2,669** | 8,872 |
| – Deposits and prepayments | **2,274** | 2,312 |
| – Cash and bank balances | **105** | 4,475 |
| Total consolidated assets | **6,002,417** | 8,814,827 |
| **Segment liabilities** | | |
| Financial services | **138,468** | 198,733 |
| Property development and investment | **3,769,508** | 4,901,903 |
| Trading of commodities | **1,999** | 6,467 |
| Automobile e-commerce | **875,191** | 49,770 |
| Total segment liabilities | **4,785,166** | 5,156,873 |
| **Unallocated** | | |
| – Accruals and other payables | **66,092** | 53,317 |
| – Lease liabilities | **2,907** | 9,305 |
| – Other borrowings | **311,863** | 273,851 |
| – Corporate bonds | **669,447** | 796,609 |
| Total consolidated liabilities | **5,835,475** | 6,289,955 |

## 6. SEGMENT INFORMATION – continued

**Other segment information**

The following is an analysis of the Group's other information by reportable segment:

| | Financial services RMB'000 | Property development and investment RMB'000 | Trading of commodities RMB'000 | Automobile e-commerce RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2023** | | | | | | |
| Additions to non-current assets (other than financial assets) | – | 74,167 | – | – | – | 74,167 |
| Equity accounted for investments in associates | – | 127,712 | – | – | – | 127,712 |
| Depreciation of property, plant and equipment | (185) | (661) | – | (14) | (6,866) | (7,726) |
| Impairment loss on goodwill | (9,899) | (70,593) | – | (5,542) | – | (86,034) |
| Share of results of associates | – | (232,654) | – | – | – | (232,654) |
| Loss on disposal of subsidiaries | – | – | (47,223) | – | – | (47,223) |
| Change in fair value of investment properties | – | (155,166) | – | – | – | (155,166) |
| Change in fair value of other financial assets | (83,714) | 15,925 | – | – | – | (67,789) |
| Reversal of financial guarantees | 42,691 | – | – | – | – | 42,691 |
| Impairment loss on inventories of properties | – | (162,182) | – | – | – | (162,182) |
| Provision of impairment loss on financial assets | (979,663) | (415,898) | – | (680,311) | (19) | (2,075,891) |
| Reversal of impairment loss on financial assets | 42 | 209 | – | 1,331 | – | 1,582 |
| Bank and other interest income | 48,191 | 1,797 | – | 45 | – | 50,033 |
| Finance costs | (16) | (16,263) | – | (44,070) | (69,223) | (129,572) |

6. **SEGMENT INFORMATION – continued**

**Other segment information – continued**

| | Financial services RMB'000 | Property development and investment RMB'000 | Trading of commodities RMB'000 | Automobile e-commerce RMB'000 | Unallocated RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2022** | | | | | | |
| Additions to non-current assets (other than financial assets) | 1,048 | 153,763 | 458 | 51 | 1,246 | 156,566 |
| Equity accounted for investments in associates | – | 360,366 | – | – | – | 360,366 |
| Depreciation of property, plant and equipment | (1,886) | (5,476) | (1,808) | (6) | (6,505) | (15,681) |
| Impairment loss on goodwill | (9,997) | – | – | – | – | (9,997) |
| Write off of property, plant and equipment | – | (734) | – | – | – | (734) |
| Share of results of associates | – | (9,814) | – | – | – | (9,814) |
| Gain on disposal of property, plant and equipment | 46 | 161 | 1 | – | – | 208 |
| (Losses) gains on disposal of subsidiaries | (66,018) | 7,534 | – | – | – | (58,484) |
| Gain on bargain purchase | – | 28,866 | – | – | – | 28,866 |
| Change in fair value of investment properties | (388) | 14,832 | – | – | – | 14,444 |
| Change in fair value of other financial assets | (6,654) | 48,396 | – | – | – | 41,742 |
| Provision for financial guarantees | (138,068) | – | – | – | – | (138,068) |
| Reversal of financial guarantees | 10,067 | 12,965 | – | – | – | 23,032 |
| Impairment loss on inventories of properties | – | (47,341) | – | – | – | (47,341) |
| Provision of impairment loss on financial assets | (74,991) | (13,316) | – | (1,251) | – | (89,558) |
| Reversal of impairment loss on financial assets | 2,535 | 5,643 | – | – | – | 8,178 |
| Bank and other interest income | 20,347 | 2,546 | 2 | 2 | – | 22,897 |
| Finance costs | (2,067) | (16,529) | (9,254) | (1,640) | (44,092) | (73,582) |

**Geographical segment information**

The Company is an investment holding company and the principal place of the Group's operation is in the PRC (including Hong Kong). For the purpose of segment information disclosures under HKFRS 8 *Operating Segment*, the Group regarded the PRC as its country of domicile.

The geographical location of customers is based on the location at which the services were provided. The total revenue from external customers is principally sourced from the PRC (including Hong Kong). The Group's non- current assets other than financial instruments are principally located in the PRC.

6. **SEGMENT INFORMATION – continued**

**Information about major customers**

There is no revenue from a customer contributing over 10% of the total revenue of the Group for the years ended 31 December 2023 and 31 December 2022.

7. **REVENUE FROM CONTRACTS WITH CUSTOMERS**

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

***(i) Disaggregation of the Group's revenue from major products or service lines:***

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Income from automobile e-commerce business** | | |
| ***Revenue from contracts with customers within the scope of HKFRS 15*** | | |
| Income from trading of goods | **11,616** | 106,960 |
| Service income | **–** | 28,830 |
| | **11,616** | 135,790 |

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Income from assets management business** | | |
| ***Revenue from contracts with customers within the scope of HKFRS 15*** | | |
| Income from sales of properties | **2,038,727** | 392,380 |
| ***Revenue from other sources*** | | |
| Rental income and sublease rental income | **22,842** | 22,042 |
| Management fee income | **1,283** | 12,002 |
| | **2,062,852** | 426,424 |

## 7. REVENUE FROM CONTRACTS WITH CUSTOMERS – continued

### (a) Disaggregation of revenue from contracts with customers – continued

#### *(i) Disaggregation of the Group's revenue from major products or service lines: – continued*

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Income from trading of commodities** | | |
| ***Revenue from contracts with customers within the scope of HKFRS 15*** | | |
| Income from trading of commodities | **59,319** | 269,531 |

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Income from financial related services** | | |
| ***Revenue from contracts with customers within the scope of HKFRS 15*** | | |
| Income from financial securities services | **–** | 1,342 |
| ***Revenue from other sources*** | | |
| Income from guarantee services | **–** | 4,353 |
| Interest income from: | | |
| – Money lending | **113,196** | 161,496 |
| – Finance lease services | **4,610** | 8,786 |
| | **117,806** | 175,977 |

7. **REVENUE FROM CONTRACTS WITH CUSTOMERS – continued**

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

***(ii) Disaggregation of the Group's revenue by timing of revenue recognition:***

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Timing of revenue recognition within the scope HKFRS 15** | | |
| At a point in time | **2,109,662** | 787,791 |
| Transferred over time | **–** | 11,252 |
| | **2,109,662** | 799,043 |

***(iii) Disaggregation of the Group's revenue by geographical markets:***

Information about the Group's revenue by geographical markets is set out in note 6.

(b) **Contract balances**

| | | **As at 31 December** | | As at |
|---|---|---|---|---|
| | | **2023** | 2022 | 1 January 2022 |
| | *Notes* | **RMB'000** | RMB'000 | RMB'000 |
| Account receivables | 19 | **87,160** | 101,664 | 134,720 |
| Contract liabilities | 28 | **1,234,510** | 2,805,076 | 2,644,848 |

Contract liabilities primarily relate to the Group's unfulfilled performance obligations to transfer goods or services to customers for which consideration has been received at the reporting date. The contract liability is recognised in revenue in the period when performance obligations are fulfilled and details of which are set out in note 28.

Further information about the Group's account receivables and contract liabilities is set out in notes 19 and 28.

**7. REVENUE FROM CONTRACTS WITH CUSTOMERS – continued**

**(c) Performance obligations for contracts with customers and revenue recognition policies**

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities.

The Group recognises revenue when the significant risks and rewards of ownership of any goods and services have been transferred, in accordance with the accounting policies for revenue recognition, on the following basis:

(i) Provision of guarantee services, express loan services, consultancy services, finance lease services, financial securities services and assets management (investments in distressed assets, equities and management of funds) to its customers in the PRC and Hong Kong

(1) Income from financial securities services: Income from financial securities services on dealings in securities contracts are recognised as revenue on the transactions dates when the relevant contract notes are executed. Further, assets management services is recognised when the Group satisfied a performance obligation by transferring a promised services to a customers in accordance with the terms of the contracts. Accordingly, the revenue is recognised at a point of time.

(2) Income from guarantee services: Income from financial guarantee service (as the case may be, including assessment fee related to issuance of financial guarantee) is recognised over the contract period on a time apportionment basis.

7. **REVENUE FROM CONTRACTS WITH CUSTOMERS – continued**

(c) **Performance obligations for contracts with customers and revenue recognition policies – continued**

(i) – continued

(3) Interest income: Interest income from entrusted loan and finance lease services and other financial assets which yield interest is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(4) Income from financial consultancy services: Financial consultancy service income is recognised when services are rendered using the percentage of completion method. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed in accordance with the terms of the contract.

(ii) Income from property development projects and property investment activities in the PRC

(1) Income from sales of properties: The Group develops and sells residential and commercial properties. Revenue is recognised at a point in time when customer obtains control of completed property. The control is transferred when the buyer obtains the physical possession of completed property.

The revenue is measured at the transaction price agreed under the contract. In determining the transaction price, the Group adjusts the promised amount of consideration for the effect of a financing component if it is significant.

The Group receives payments from customers based on billing schedule as established in contracts. Certain payments are usually received in advance in pre-sales arrangement. Such proceeds from customers are recorded as contract liabilities before the relevant sales are recognised.

(2) Rental income and sublease rental income: Rental income and sublease rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

7. **REVENUE FROM CONTRACTS WITH CUSTOMERS – continued**

(c) **Performance obligations for contracts with customers and revenue recognition policies – continued**

(ii) – continued

(3) Management fee income: Revenue from providing property management services is recognised in the accounting period in which the services are rendered as the customer simultaneously receives and consumes the benefits provided by the Group.

The Group bills a fixed amount for services provided on a monthly basis and recognises as revenue in the amount to which the Group has a right to invoice and that corresponds directly with the value of performance completed.

The Group received property management services income, where the Group acts as a principal and is primary responsible for providing the property management services to the property owners. The Group entitles to revenue at the value of property management services fee received or receivable and recognises all related property management costs as its cost of service.

(iii) Trading of commodities in the PRC: Income from sale of goods generally includes only one performance obligation. The Group concludes that income from sales of goods to customers is recognised at the point of time when control of goods is transferred to the customers in accordance with the terms of the contracts, generally when the products are delivered to and the risks of obsolescence and loss have been transferred to the customers.

(iv) Automobile e-commerce – online e-commerce platform in the automobile industry in the PRC

(1) Income from sale of goods generally includes only one performance obligation. The Group concludes that income from sales of goods to customers is recognised at a point of time when control of goods have been passed to the customers in accordance with the terms of the contract, which is primarily upon the goods are delivered to and have been accepted by customers.

(2) Agency service income is recognised in the accounting period at a point in time as those services are rendered. Invoices for agency service income are issued once performance recognition fulfilled.

**7. REVENUE FROM CONTRACTS WITH CUSTOMERS – continued**

**(c) Performance obligations for contracts with customers and revenue recognition policies – continued**

(iv) – continued

(3) Software development service income is recognised over time, based on the actual costs incurred relative to the total cost to be provided, because the Group's performance creates or enhance an asset that customers controls.

(4) Membership fee income is recognised in the accounting period on a straight-line basis over the contract term because the customer simultaneously receives and consumes the benefits provided by the Group.

(v) Others

Interest income from banks is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets.

Further information about the Group's accounting policies relating to revenue from contracts with customers is provided in note 4(b) to the consolidated financial statements.

**(d) Translation price allocated to remaining performance obligation**

The Group has applied practical expedient to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date.

## 8. OTHER INCOME

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| *Other income comprises:* | | |
| Bank and other interest income | **50,033** | 22,897 |
| Gains on disposal of property, plant and equipment | **468** | 208 |
| Government grants (note below) | **–** | 33,084 |
| Reversal of impairment loss on financial assets | **1,582** | 8,178 |
| Reversal of provision on financial guarantees | **42,691** | 23,032 |
| Net foreign exchange gains | **–** | 1,752 |
| Others | **2,167** | 6,338 |
| | **96,941** | 95,489 |

*Note:* For the year ended 31 December 2022, the government grants of RMB30,100,000 was from the relevant PRC government authorities in support of the Group's asset management business in the PRC. The remaining portion of the government grant represented the financial support from the Hong Kong Special Administrative Region Government who set up the Anti-epidemic Fund under the Employment Support Scheme and the support of the Group's financial service business in the PRC. There were no unfulfilled conditions to receive the grants.

The Group did not have such government grants during the year ended 31 December 2023.

## 9. FINANCE COSTS

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest on bank and other borrowings | **100,825** | 71,978 |
| Interest on corporate bonds | **38,431** | 29,603 |
| Interest on lease liabilities | **1,465** | 1,217 |
| | **140,721** | 102,798 |
| Less: Interest capitalised | **(11,149)** | (29,216) |
| | **129,572** | 73,582 |

During the year ended 31 December 2023, the weighted average capitalisation rate for the year on fund's borrowed is 5.83% (2022: 6.25%) per annum.

## 10. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging (crediting):

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Auditor's remuneration | | |
| – Audit service | **1,350** | 1,804 |
| – Non-audit service | **157** | 179 |
| | **1,507** | 1,983 |
| Cost of property sold and trading of commodities | **1,451,148** | 677,826 |
| Impairment loss on inventories of properties | **162,182** | 47,341 |
| Cost of property sold and trading of commodities recognised as expenses | **1,613,330** | 725,167 |
| Employee's costs (including directors' remuneration (see note 12(a)) | | |
| – Salaries and allowances | **34,591** | 57,224 |
| – Pension scheme contributions – Defined contribution plans | **3,589** | 4,081 |
| – Other benefits | **1,234** | 5,324 |
| | **39,414** | 66,629 |
| Depreciation of property, plant and equipment | **7,726** | 15,681 |
| Write off of property, plant and equipment | **–** | 734 |
| Impairment loss on goodwill | **86,034** | 9,997 |
| Impairment loss on financial assets | **2,075,891** | 89,558 |
| Reversal of impairment loss on financial assets | **(1,582)** | (8,178) |
| Provision for financial guarantees | **–** | 138,068 |
| Reversal of financial guarantees | **(42,691)** | (23,032) |
| Net foreign exchange losses (gains) | **362** | (1,752) |
| Gains on disposal of property, plant and equipment | **(468)** | (208) |

## 11. INCOME TAX EXPENSE

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| **Current tax** | | |
| Hong Kong Profits Tax | **25** | 117 |
| PRC: | | |
| – Enterprise income tax ("EIT") | **139,354** | 41,958 |
| – Land appreciation tax ("LAT") | **108,219** | 16,396 |
| – Withholding tax | **–** | 570 |
| | **247,598** | 59,041 |
| Deferred tax *(note 33)* | **(74,287)** | (8,489) |
| | **173,311** | 50,552 |

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income in respective jurisdictions.

EIT arising from subsidiaries operated in the PRC for the year was calculated at 25% (2022: 25%) of the estimated assessable profits during the year.

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including cost of land value, borrowing costs, business tax and all property development expenditures. The tax is incurred upon transfer of property ownership. There are certain exemptions available for the sale of ordinary residential properties if the appreciation values do not exceed 20% of the total deductible items (as defined in the relevant PRC tax laws). Sales of commercial properties are not eligible for such an exemption.

**11. INCOME TAX EXPENSE – continued**

Withholding tax was calculated at 7% (2022: 7%) of the interest paid by PRC entities to a non-PRC holding company during the year.

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

A reconciliation of the income tax expense applicable to loss before income tax at the statutory tax rate to the income tax expense at the effective tax rate for each year is as follows:

| | **2023**<br>**RMB'000** | 2022<br>RMB'000 |
|---|---|---|
| Loss before income tax | **(2,349,094)** | (129,805) |
| Tax calculated at the rates applicable to profits in the tax jurisdiction concerned | **(660,069)** | (12,469) |
| Tax effect of income not taxable for tax purpose | **(299,722)** | (43,629) |
| Tax effect of expenses not deductible for tax purpose | **957,451** | 68,623 |
| Tax effect of tax losses not recognised | **94,462** | 25,922 |
| Utilisation of tax losses previously not recognised | **–** | (762) |
| Under-provision in prior years | **25** | – |
| Provision for LAT | **108,219** | 16,396 |
| Tax effect on EIT of LAT payable | **(27,055)** | (4,099) |
| Withholding tax for interest paid by PRC subsidiaries | **–** | 570 |
| Income tax expense | **173,311** | 50,552 |

## 12. DIRECTORS, CHIEF EXECUTIVE OFFICER AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' and Chief Executive Officer remuneration

The remuneration paid or payable to the directors and Chief Executive Officer of the Company were as follows:

| | Fees RMB'000 | Salaries, allowances, bonuses and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Year ended 31 December 2023** | | | | |
| Executive directors: | | | | |
| Mr. Ng Chi Chung | – | 864 | 16 | 880 |
| Dr. Feng Xiaogang | – | 540 | 16 | 556 |
| Mr. Tong Lu *(note (i) below)* | – | 136 | – | 136 |
| | – | 1,540 | 32 | 1,572 |
| Non-executive directors: | | | | |
| Mr. Kang Fuming | 87 | – | – | 87 |
| Mr. Xu Yiwei | 87 | – | – | 87 |
| | 174 | – | – | 174 |
| Independent non-executive directors: | | | | |
| Mr. Chan Sing Nun | 86 | – | – | 86 |
| Mr. Lam Kit Lam | 86 | – | – | 86 |
| Mr. Chen Naike *(note (ii) below)* | 32 | – | – | 32 |
| Ms. Chuang Yin Lam *(note (iii) below)* | 54 | – | – | 54 |
| | 258 | – | – | 258 |
| Total | 432 | 1,540 | 32 | 2,004 |

## 12. DIRECTORS', CHIEF EXECUTIVE OFFICER AND FIVE HIGHEST PAID INDIVIDUALS – continued

### (a) Directors' and Chief Executive Officer remuneration – continued

| | Fees RMB'000 | Salaries, allowances, bonuses and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Year ended 31 December 2022** | | | | |
| Executive directors: | | | | |
| Mr. Hong Mingxian *(note (iv) below)* | – | 215 | 5 | 220 |
| Mr. Ng Chi Chung *(note (v) below)* | – | 723 | 16 | 739 |
| Dr. Feng Xiaogang | – | 513 | 16 | 529 |
| | – | 1,451 | 37 | 1,488 |
| Non-executive directors: | | | | |
| Mr. Kang Fuming *(note (vi) below)* | 59 | – | – | 59 |
| Mr. Xu Yiwei | 59 | – | – | 59 |
| Mr. Wu Qinghan *(note (vii) below)* | 26 | – | – | 26 |
| Mr. Cai Huatan *(note (viii) below)* | 26 | – | – | 26 |
| | 170 | – | – | 170 |
| Independent non-executive directors: | | | | |
| Mr. Chan Sing Nun | 84 | – | – | 84 |
| Mr. Lam Kit Lam | 84 | – | – | 84 |
| Mr. Chen Naike | 84 | – | – | 84 |
| | 252 | – | – | 252 |
| Total | 422 | 1,451 | 37 | 1,910 |

## 12. DIRECTORS', CHIEF EXECUTIVE OFFICER AND FIVE HIGHEST PAID INDIVIDUALS – continued

### (a) Directors' and Chief Executive Officer remuneration – continued

*Notes:*

(i) Mr. Tong Lu has been appointed as an executive directors on 15 May 2023.

(ii) Mr. Chen Naike has tendered his resignation as an independent non-executive director on 15 May 2023

(iii) Ms. Chuang Yin Lam has been appointed as an independent non-executive director on 15 May 2023.

(iv) Mr. Hong Mingxian has tendered his resignation as the Chairman and has been appointed as the Honorary Chairman with effect from 21 April 2022.

(v) Mr. Ng Chi Chung has been appointed as the Chairman with effect from 21 April 2022.

(vi) Mr. Kang Fuming and Mr. Xu Yiwei have been appointed as a non-executive Director on 21 April 2022.

(vii) Mr. Wu Qinghan has tendered his resignation as a non-executive Director from 21 April 2022.

(viii) Mr. Cai Huatan has tendered his resignation as a non-executive Director and the honorary chairman from 21 April 2022.

During the years ended 31 December 2023 and 31 December 2022, there was no arrangement under which a director or the Chief Executive Officer waived or agreed to waive any remuneration.

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

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

### (b) Five highest paid individuals

The five highest paid individuals of the Group included two directors (2022: two) for the years ended 31 December 2023 and 31 December 2022 whose emoluments are reflected in note 12(a).

The analysis of the emolument of the five highest paid individuals for the years ended 31 December 2023 and 31 December 2022 are set out below:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **3,867** | 4,214 |
| Pension scheme contributions | **80** | 80 |
| | **3,947** | 4,294 |

## 12. DIRECTORS', CHIEF EXECUTIVE OFFICER AND FIVE HIGHEST PAID INDIVIDUALS – continued

**(b) Five highest paid individuals – continued**

The five highest paid individuals whose remunerations fell within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2023** | 2022 |
| HK$500,001 to HK$1,000,000 | **4** | 3 |
| HK$1,000,001 to HK$1,500,000 | **1** | 2 |
| | **5** | 5 |

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

## 13. DIVIDENDS

(a) No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2023, nor has any dividend been proposed since the end of the reporting period (2022: nil).

(b) Dividend attributable to previous financial year, approved and paid during the year:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Final dividend paid in respect of prior year – nil (2022: HK0.5 cent per ordinary share) | **–** | 30,636 |

## 14. 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:

Loss figures are calculated as followings:

| | **2023** **RMB'000** | 2022 RMB'000 |
|---|---|---|
| Loss for the year attributable to owners of the Company | **(2,522,332)** | (180,205) |

Number of shares

| | **2023** **Number of shares ('000)** | 2022 Number of shares ('000) (Restated) |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic and diluted loss per share | **820,375** | 720,839 |

The weighted average number of ordinary shares for the purpose of basic and diluted loss the year ended 31 December 2023 has been adjusted for the First Placing of shares and Second Placing of shares and details of which are set out in notes 34(1)(a) and (b).

As described in note 34(2)(a), on 19 February 2024, an ordinary resolution passed at the extraordinary general meeting of the Company for the share consolidation of every 10 ordinary shares into 1 consolidated share, which was effective on 21 February 2024 (i.e. the "Share Consolidation" as described in note 34(2)(a)). The weighted average numbers of ordinary shares in issue for the purpose of calculating basic and diluted loss per share for the years ended 31 December 2023 and 31 December 2022 have been retrospectively adjusted on the assumption that the Share Consolidation had been effective since 1 January 2022.

The diluted loss per share is the same as the basic loss per share, as the Group has no dilutive potential ordinary shares for the years ended 31 December 2023 and 31 December 2022.

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements RMB'000 | Hotel properties RMB'000 | Other properties leased for own use RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures and office equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| At 1 January 2022 | 17,212 | – | 42,243 | 6,493 | 15,073 | 280,987 | 362,008 |
| Acquisition of subsidiaries *(note 38(b))* | – | – | 922 | 42 | 124 | – | 1,088 |
| Additions | 3,090 | – | 424 | 417 | 597 | 151,426 | 155,954 |
| Lease modification | – | – | 612 | – | – | – | 612 |
| Disposal of subsidiaries *(note 37(b))* | (12,689) | – | (1,178) | (317) | (9,109) | – | (23,293) |
| Other disposals | – | – | – | (4,584) | (492) | – | (5,076) |
| Written off | (4,623) | – | (25,441) | – | (954) | – | (31,018) |
| Exchange realignment | 6 | – | 599 | 36 | 74 | – | 715 |
| As at 31 December 2022 and 1 January 2023 | **2,996** | **–** | **18,181** | **2,087** | **5,313** | **432,413** | **460,990** |
| Acquisition of subsidiaries *(note 38(a))* | **–** | **–** | **–** | **–** | **40** | **–** | **40** |
| Additions | **–** | **–** | **–** | **–** | **6** | **74,161** | **74,167** |
| Other disposals | **–** | **–** | **–** | **(891)** | **(387)** | **–** | **(1,278)** |
| Transfer | **–** | **506,574** | **–** | **–** | **–** | **(506,574)** | **–** |
| Exchange realignment | **28** | **–** | **399** | **15** | **6** | **–** | **448** |
| **At 31 December 2023** | **3,024** | **506,574** | **18,580** | **1,211** | **4,978** | **–** | **534,367** |

## 15. PROPERTY, PLANT AND EQUIPMENT – continued

| | Leasehold improvements RMB'000 | Hotel properties RMB'000 | Other properties leased for own use RMB'000 *(note 28)* | Motor vehicles RMB'000 | Furniture, fixtures and office equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Accumulated depreciation and impairment:** | | | | | | | |
| At 1 January 2022 | 14,914 | – | 24,556 | 3,480 | 9,731 | – | 52,681 |
| Charge for the year | 2,068 | – | 10,075 | 1,024 | 2,514 | – | 15,681 |
| Disposal of subsidiaries *(note 37(b))* | (10,542) | – | (301) | (40) | (7,130) | – | (18,013) |
| Write back on other disposals | – | – | – | (3,700) | (80) | – | (3,780) |
| Write back on written off | (4,623) | – | (25,441) | – | (220) | – | (30,284) |
| Exchange realignment | 1 | – | 117 | 2 | 56 | – | 176 |
| As at 31 December 2022 and 1 January 2023 | **1,818** | **–** | **9,006** | **766** | **4,871** | **–** | **16,461** |
| Charge for the year | **860** | **–** | **5,980** | **482** | **404** | **–** | **7,726** |
| Write back on other disposals | **–** | **–** | **–** | **(792)** | **(356)** | **–** | **(1,148)** |
| Exchange realignment | **15** | **–** | **210** | **5** | **5** | **–** | **235** |
| **At 31 December 2023** | **2,693** | **–** | **15,196** | **461** | **4,924** | **–** | **23,274** |
| **Net carrying amount:** | | | | | | | |
| **At 31 December 2023** | **331** | **506,574** | **3,384** | **750** | **54** | **–** | **511,093** |
| At 31 December 2022 | 1,178 | – | 9,175 | 1,321 | 442 | 432,413 | 444,529 |

The Group's construction in progress mainly comprises the construction of a hotel premise of the Company located at Longquan, Lishui, Zhejiang Province, the PRC which was completed in late 2023 and thus, the amount was transferred to hotel premise of the Company during the year ended 31 December 2023.

**15. PROPERTY, PLANT AND EQUIPMENT – continued**

Details of right-of-use assets included in the Group's property, plant and equipment:

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Other properties leased for own use | **3,384** | 9,175 |
| Hotel properties/construction in progress | **115,023** | 115,023 |
| | **118,407** | 124,198 |
| Depreciation of right-of-use assets | **5,980** | 10,075 |

## 16. INVESTMENT PROPERTIES

The movements of investment properties and a reconciliation of the opening and closing fair value balance are as followings:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| At 1 January | **769,843** | 756,801 |
| Acquisition of subsidiaries *(note 38)* | **357,185** | 338,097 |
| Disposal of subsidiaries *(note 37)* | **(80,200)** | (339,499) |
| Change in fair value | **(155,166)** | 14,444 |
| At 31 December | **891,662** | 769,843 |

All of the Group's leasehold interest in land and buildings held to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model.

The fair values of the investment properties of the Group in the PRC were assessed by Vincorn Consulting and Appraisal Limited, an independent qualified professional valuer, member of the Hong Kong Institute of Surveyors and has appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

In determining the fair value of the relevant properties, discussion of valuation processes and result had been held between management and the independent professional valuer to establish the appropriate valuation techniques and inputs to the model as at the reporting date.

For the completed properties, the fair values are determined by applying the combination of market approach and income approach by reference to the comparable sales evidences as available on the relevant market and, where appropriate, using income approach, by capitalised rental income as shown on the tenancy agreements and assumed that the Group sells the properties on the open market without the benefit or burden of a deferred term contract, management agreement or any similar arrangement, which would serve to affect the value of the properties. This valuation requires the use of unobservable inputs and is within Level 3 of the fair value hierarchy.

No government grant was received related to investment properties during the years ended 31 December 2023 and 31 December 2022.

There were no transfers between levels 1, 2 and 3 for both years.

## 16. INVESTMENT PROPERTIES – continued

Information about fair value measurements, including the valuation techniques using significant unobservable input (Level 3) is as follows:

| Particular of the properties | Fair value of the properties As at 31 December 2023 RMB'000 | 2022 RMB'000 | Valuation technique | Significant unobservable input(s) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Shopping mall, the PRC | **590,300** | 674,434 | Direct comparison and income approach | Term yield: 2.50% (2022: 3.30%)<br>Expected vacancy rate: ranging from 18% to 21% (2022: 18% to 20%)<br>Reversionary rate: 5.25% (2022: 5.30%) | The higher the term yield, the lower the fair value<br>The higher the expected vacancy rate, the lower the fair value<br>The higher the reversionary rate, the lower the fair value |
| Commercial units, the PRC | **275,800** | N/A | Direct comparison and income approach | Term yield: 5.00% (2022: N/A)<br>Expected vacancy rate: ranging from 18% to 20% (2022: N/A)<br>Reversionary rate: 5.50% (2022: N/A) | The higher the term yield, the lower the fair value<br>The higher the expected vacancy rate, the lower the fair value<br>The higher the reversionary rate, the lower the fair value |
| Commercial units, the PRC | **25,562** | N/A | Income approach | Expected rental RMB49–98/month/sq.m. (2022: N/A)<br>Reversionary rate: 5.00% (2022: N/A) | The higher the expected rental, the higher the fair value<br>The higher the reversionary rate, the lower the fair value |
| Commercial buildings, the PRC | **N/A** | 95,409 | Direct comparison and income approach | Term yield: N/A (2022: 2.00%)<br>Expected vacancy rate: N/A (2022: 0%)<br>Reversionary rate: N/A (2022: 3.30%) | The higher the term yield, the lower the fair value<br>The higher the expected vacancy rate, the lower the fair value<br>The higher the reversionary rate, the lower the fair value |
| | **891,662** | 769,843 | | | |

## 16. INVESTMENT PROPERTIES – continued

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

As at 31 December 2023, investment properties of approximately RMB866,100,000 were pledged to secure the Group's bank borrowings of approximately RMB919,017,000 (note 31). As at 31 December 2022, investment properties of approximately RMB674,434,000 were pledged to secure the Group's borrowings of approximately RMB82,866,000 (note 31) and approximately RMB95,409,000 were pledged to secure the banking facilities granted to certain customers (note 31).

Details of right-of-use assets included in the Group's investment properties:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Leasehold land under investment properties, include in the investment properties | **231,917** | 172,535 |

**Leasing arrangements**

The investment properties are leased to tenants under operating leases with rentals payable monthly. There are no other variable lease payments. To reduce credit risk, the Group normally retains rental deposits from the lessees.

Although the Group is exposed to changes in the residual value at the end of the current leases, the Group typically enters into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Expectations about the future residual values are reflected in the fair value of the properties.

Future minimum lease payments receivable under non-cancellable operating lease at the Group were as follows:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within one year | **34,063** | 5,705 |
| After one year but within two years | **22,637** | 5,714 |
| After two years but within five years | **53,977** | 5,710 |
| After five years | **72,170** | – |
| | **182,847** | 17,129 |

Leases are negotiated for terms of average 5 years (2022: 3 years).

## 17. INTERESTS IN ASSOCIATES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Shares of net assets | **127,712** | 360,366 |
| Amount due from the associate *(see note 21)* | **822,429** | 588,683 |
| Less: Impairments | **(176,535)** | (13,250) |
| | **645,894** | 575,433 |

As at 31 December 2023, the amount due from the associate was unsecured and repayable on demand. Among the balance, RMB747,190,000 (2022: RMB491,190,000) was interest bearing at 10% (2022: 10%) per annum and the remaining balance was interest free.

Details of each of the Group's associate at the end of the reporting period are as follows:

| Name of the entity | Place of incorporation, operation and principal activity | % of ownership indirectly held interest 2023 | 2022 | Principal activities |
|---|---|---|---|---|
| 中城城開集團有限公司 (Zhongcheng City Development Group Co., Limited) ("Zhongcheng") | PRC | **49% (note below)** | 49% | Provision of financial services, property development and management and commodity trading business in the PRC |

*Note:* During the year ended 31 December 2023, the Group transferred its 49% equity interest in Zhongcheng to one of the shareholder of Zhongcheng (the "Trustee") (the "Share Transfer") under a share transfer agreement with the Trustee dated 27 November 2023 (the "Share Transfer Agreement"). However, pursuant to the trusting documents entered into between the Trustee and the Group, the Trustee holds 49% equity interest in Zhongcheng on behalf of the Group (the "Trusting Arrangement"). With the consultation of the Company's legal counselor, under the Trusting Arrangement, the Group is the beneficial owner of 49% equity interest in Zhongcheng and further, the Trustee is not obliged to and has no obligation to pay the consideration relating to the transfer of 49% equity interest in Zhongcheng to the Trustee under the Share Transfer Agreement. The directors of the Company consider that the Share Transfer is merely an arrangement for business purpose and the Group in fact did not dispose of any equity interest in Zhongcheng to the Trustee.

In such circumstances, the directors of the Company are of view that the Group is the beneficial owner in 49% equity interest in Zhongcheng, the Group has the power and rights to participate the policy-making process and has significant influence over Zhongcheng. Accordingly, the directors of the Company still consider to account for its investment in the Zhongcheng as an associate of the Group as the directors assessed that there is significant influence because the Group has the power and rights to participate in the financial and operating policy decisions of the Zhongcheng in accordance with Hong Kong Accounting Standard 28 (2011) "Investment in Associates and Joint Ventures".

## 17. INTERESTS IN ASSOCIATES – continued

Summarised financial information in respect of Zhongcheng is set out below based on the financial statements of Zhongcheng which is conterminous with those of the Group:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Revenue | **729,684** | 1,737,744 |
| Loss for the year and total comprehensive income | **(474,803)** | (20,028) |
| Dividends received from the associate | **–** | – |
| The Group share of total comprehensive expense for the year | **(232,654)** | (9,814) |
| Current assets | **1,308,304** | 907,195 |
| Non-current assets | **168,712** | 777,335 |
| Current liabilities | **(1,205,796)** | (949,090) |
| Non-current liabilities | **(10,583)** | – |
| Net assets | **260,637** | 735,440 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

| | **2023** | 2022 |
|---|---|---|
| Net assets of Zhongcheng (RMB'000) | **260,637** | 735,440 |
| Proportion of the Group's ownership in Zhongcheng (%) | **49%** | 49% |
| The Group's share of net assets of Zhongcheng (RMB'000) | **127,712** | 360,366 |
| Carrying amount of the Group's interest in Zhongcheng (RMB'000) | **127,712** | 360,366 |

## 18. GOODWILL

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 January | **86,034** | 96,031 |
| Acquisition of subsidiaries *(note 38)* | **–** | 9,159 |
| Disposal of subsidiaries *(note 37)* | **–** | (9,159) |
| Impairment loss | **(86,034)** | (9,997) |
| At 31 December | **–** | 86,034 |

The goodwill arose as part of business combinations in prior years and were determined at the respective acquisition dates, being the differences between the purchase considerations and the fair values of net identifiable assets of acquirees.

The Group's goodwill is mainly attributable to the following CGUs:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Finance lease business – Jiashi International Financial Limited | **–** | 9,899 |
| Property development business – Weihai Zhongtian Real Estate Company Limited ("Weihai") and Jingning Outdoor Residence Tour Investment Development Co., Limited ("Jingning") | **–** | 70,593 |
| Automobile e-commerce business – Fast Sunrise Limited and its subsidiaries | **–** | 5,542 |
| | **–** | 86,034 |

## 18. GOODWILL – continued

**Impairment assessment for the year ended 31 December 2022**

During the year ended 31 December 2022, the Group has continued to operate the finance leasing business without any new customer. Due to the declining prospects in finance lease business, the Group assessed the recoverable amount of the CGU of finance leasing and the carrying amount of this CGU is written down to its recoverable amount of RMB9,899,000. An impairment loss of approximately RMB9,997,000 was recognised within "other expenses" in the consolidated statement of comprehensive income.

**Impairment assessment for the year ended 31 December 2023**

***Finance lease business – Jiashi***

During the year ended 31 December 2023, the Group is continuing to incur significant loss on its finance lease business – Jiashi and thus, at the end of reporting period, the directors performed impairment assessment on CGU attributable to its of finance leasing business – Jiashi and assessed the recoverable amount of the CGU of finance leasing business – Jiashi based on value in use calculation or fair value less cost of disposal, whichever is higher.

***Property development business – Weihai and Jingning***

During the year ended 31 December 2023, in view of the recent decline in the business and operations in the Group's PRC real estate industry, it is expected that the Group's might incur significant loss upon the completion of the Weihai and Jingning property under development projects and thus, at the end of reporting period, the directors performed impairment assessment on CGUs attributable to its of property development business – Weihai and Jingning and assessed the recoverable amounts of the CGUs of property development business – Weihai and Jingning based on value in use calculation or fair value less cost of disposal, whichever is higher.

***Automobile e-commerce business – Fast Sunrise***

During the year ended 31 December 2023, the Group incurred significant loss on its automobile e-commerce business – Fast Sunrise and thus, at the end of reporting period, the directors performed impairment assessment on CGU attributable to its of automobile e-commerce business – Fast Sunrise and assessed the recoverable amount of the CGU of automobile e-commerce business – Fast Sunrise based on value in use calculation or fair value less cost of disposal, whichever is higher.

The Group engaged an external, independent, and qualified valuer to determine the impairment assessment of the Group's goodwill.

Discussion of the valuation process are results had been held between management and the valuer in respect of the valuation as at the reporting date.

## 18. GOODWILL – continued

**Impairment assessment for the year ended 31 December 2023 – continued**

***Automobile e-commerce business – Fast Sunrise – continued***

The following table sets forth each key assumptions and inputs on which management has based its cash flow projections to undertake impairment assessment of goodwill attributable to the CGUs as at 31 December 2023 and 31 December 2022:

| Key assumptions and inputs | Finance lease business | Property development business – Weihai and Jingning | Automobile e-commerce business |
|---|---|---|---|
| – Revenue | 5-year budget plan: 2024 to 2028 (2022: 2023 to 2027) | 5-year budget plan: 2024 to 2028 (2022: 2023 to 2027) | 5-year budget plan: 2024 to 2028 (2022: 2023 to 2027) |
| – Long-term growth rate | 0% (2022: 0%) | 0% (2022: 0%) | 0% (2022: 2.5%) |
| – Pre-tax discount rate | 12.0% (2022: 17.1%) | 11.2% to 13.4% (2022: 13.8% to 25.8%) | 16.2% (2022: 17.4%) |

The Group management's key assumptions, including estimated of future revenue, operating costs, pre-tax discount rate and growth rate beyond five-year period, have been determined based on past performance and its expectations for the market's development. The discount rate used is pre-tax and reflect specific risks relating to the relevant business.

In view of the deterioration of the business and operation of the respective CGUs, based on the impairment assessment, an impairment loss of approximately RMB86,034,000 (2022: RMB9,997,000) was recognised which was charged to profit or loss for the year as "other expenses" in the consolidated statement of comprehensive income.

## 19. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES

| | Notes | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| Finance lease receivables | (a) | **12,587** | 82,167 |
| Loan receivables | (b) | **–** | 246,093 |
| Receivables from guarantee customers | (c) | **–** | 10,864 |
| Account receivables | (d) | **87,160** | 101,664 |
| | | **99,747** | 440,788 |
| Analysed as: | | | |
| – Current portion | | **99,947** | 410,713 |
| – Non-current portion | | **–** | 30,075 |
| | | **99,747** | 440,788 |

*Notes:*

(a) Finance lease receivables

For finance lease receivables, the customers are obliged to settle the amounts according to the terms set out in the relevant contracts, and must acquire the leased assets at the end of the lease period. The contract term for each loan contract is ranging from two to ten years.

The details of finance lease receivables as of each reporting date are as follows:

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Finance lease receivables | **91,556** | 86,945 |
| Less: Impairments | **(78,969)** | (4,778) |
| | **12,587** | 82,167 |

## 19. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

*Notes: – continued*

(a) Finance lease receivables – continued

The finance lease receivable as of each reporting date are further analysed as follows:

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **Minimum lease payments RMB'000** | **Present value RMB'000** | Minimum lease payments RMB'000 | Present value RMB'000 |
| Not later than one year | **18,265** | **12,587** | 56,878 | 52,092 |
| Later than one year and not later than five years | **–** | **–** | 35,578 | 30,075 |
| | **18,265** | **12,587** | 92,456 | 82,167 |
| Unearned finance income | **(5,678)** | **N/A** | (10,289) | – |
| Present value of minimum lease payments | **12,587** | **12,587** | 82,167 | 82,167 |

As at 31 December 2023 and 31 December 2022, the deposits received from finance lease customers amounted to approximately RMB13,664,000 (2022: RMB13,664,000) (note 27(b)).

In view of the default in settlement of the finance lease receivables from customers of approximately RMB91,556,000, taking into account of the deposits received from finance lease customers and the low possibility to recover the outstanding receivables from the finance lease customers, the Group recognised impairment losses of approximately RMB75,499,000 for the year ended 31 December 2023 and the details of which are set out in note 41(ii).

## 19. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

*Notes: – continued*

(b) Loan receivables

For loan receivables, the customers are obliged to settle the amounts according to the terms set out in the relevant contracts. The contract term for each loan contract is normally not more than four years.

The details of loan receivables as of each reporting date are as follows:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Loan receivables | **650,455** | 251,106 |
| Less: Impairments | **(650,455)** | (5,013) |
| | **–** | 246,093 |

During the year ended 31 December 2023, the Group granted new unsecured loans to certain borrowers in which the aggregate net loan balance increased by approximately RMB414,551,000.

In view of the default in settlement of the loan receivables from the borrowers of approximately RMB650,455,000, taking into account of the holding of collaterals and the low possibility to recover the outstanding receivables from the borrowers, the Group recognised full impairment losses on such outstanding balances of approximately RMB645,484,000 for the year ended 31 December 2023 and the details of which are set out in note 41(ii).

(c) Receivables from guarantee customers

For receivables from guarantee customers, it represented the repayment paid to the banks on behalf of the guarantee customers. The guarantee customers are obliged to settle the amounts according to the term set out in relevant contracts.

The details of receivables from guarantee customers as of each reporting date are as follows:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Receivables from guarantee customers | **29,450** | 29,661 |
| Less: Impairments | **(29,450)** | (18,797) |
| | **–** | 10,864 |

In view of the default in settlement of the of receivables from guarantee customers of approximately RMB29,450,000, taking into account of the holding of collaterals and the low possibility to recover the outstanding receivables from the customers, the Group recognised full impairment losses on such outstanding balances of approximately RMB10,653,000 for the year ended 31 December 2023 and the details of which are set out in note 41(ii).

## 19. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

*Notes: – continued*

(d) Account receivables

For account receivables, it represented interest receivables from finance lease receivables and loan receivables, proceeds receivables from assets management and service fee receivables. The customers are obliged to settle the amounts according to the terms set out in relevant contracts and, normally, no credit period was granted to customers.

The details of account receivables as of each reporting date are as follows:

| | *Notes* | **2023**<br>**RMB'000** | 2022<br>RMB'000 |
|---|---|---|---|
| Housing vouchers (房票) regarding the proceeds receivable from assets management | (i) | **79,352** | – |
| Proceeds receivable from assets management | (ii) | **80,037** | 74,345 |
| Interest receivables from finance lease receivables and loan receivables | (iii) | **77,213** | 29,612 |
| Rental income receivables | (iv) | **1,559** | 1,559 |
| | | **238,161** | 105,516 |
| Less: Impairments | | **(151,001)** | (3,852) |
| | | **87,160** | 101,664 |

*Notes:*

(i) The housing vouchers are notes issued by the local PRC provincial government regarding the selling of the Group's property projects to its customers during the year in which the noteholders are eligible to exchange the notes into cash with the relevant local PRC provincial government within 18 months after the issuances of the notes.

(ii) Out of which, the amounts included outstanding sale proceeds from the selling of the Group's properties amounted to approximately RMB63,500,000 in the current and prior years.

(iii) The amounts represented the interest receivables from finance lease customers and loan borrowers which were described in notes 19(a) and (b) above.

(iv) The amounts represented rental income receivables from the leasing of the Group's investment properties in prior years.

## 19. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

*Notes: – continued*

(d) Account receivables – continued

In view of the default in settlement of the receivables from certain customers, borrowers and counterparties of approximately RMB142,550,000, taking into account of the holding of collaterals and the low possibility to recover the outstanding receivables from such customers, borrowers and counterparties, the Group recognised full impairment losses on such outstanding balances for interest receivables from finance lease customers and loan borrowers and hence, the rental customers from the leasing of the Group's investment properties in prior years and outstanding sale proceeds from the selling of the Group's properties counterparties of approximately RMB139,078,000 for the year ended 31 December 2023 and the details of which are set out in note 41(ii).

At the end of each reporting period, the directors of the Company consider that the fair values of finance lease, loan and account receivables are not materially different from their carrying amounts.

Interest rates on finance lease receivables and loan receivables are offered to customers based on the assessment of a number of factors including the borrowers' creditworthiness and repayment ability, collaterals as well as the general economic trends. The effective interest rates of finance lease receivables and loan receivables charged by the Group are summarised below:

| | **2023** | 2022 |
|---|---|---|
| | **% per month** | % per month |
| Finance lease receivables | **0.5 to 1.1** | 0.5 to 1.1 |
| Loan receivables | **0.8 to 2.1** | 0.8 to 2.1 |

Based on the loan commencement date set out in the relevant contracts, ageing analysis of the Group's finance lease, loan and account receivables, excluding receivables from guarantee customers, net of impairment loss, as of each reporting date is as follows:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 0 to 30 days | **11,731** | 16,987 |
| 31 to 90 days | **7** | – |
| 91 to 180 days | **72,338** | – |
| Over 180 days | **15,671** | 412,937 |
| | **99,747** | 429,924 |

## 19. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

*Notes: – continued*

(d) Account receivables – continued

Ageing analysis of the Group's finance lease, loan and account receivables, excluding receivables from guarantee customers, prepared based on due date, net of impairment loss, is as follows:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Not yet past due | **87,160** | 413,082 |
| Past due 0 to 30 days | **–** | 182 |
| Past due 31 to 90 days | **–** | 546 |
| Past due 91 to 180 days | **–** | 2,609 |
| Over 180 days | **12,587** | 13,505 |
| | **99,747** | 429,924 |

Receivables from guarantee customers were excluded from ageing analysis as they were debts settled by the Group on behalf of its guarantee customers which were past due to their original creditors according to relevant loan/guarantee agreements but no exact due date to the Group.

As at 31 December 2022, the Group holds collaterals over certain loan receivables, account receivables and receivables from guarantee customers and the aggregate fair values of the collaterals in respect of such loan receivables, account receivables and receivables from guarantee customers amounted to approximately, RMB371,687,000, including real estate, movable property, property rights and other assets amounting to approximately RMB17,626,000, RMB10,675,000, RMB339,886,000 and RMB3,500,000, respectively.

As at 31 December 2023, out of the Group's loan and account receivables, despite the exerted efforts of the directors of the Company to request certain customers and borrowers in settling their outstanding balances on time, however, such loan receivables borrowers and account receivables customers (collectively, referred to the "Doubtful Loan and Account Receivables") with an aggregate gross amount of approximately RMB465,391,000 did not settle their outstanding balances in accordance with the terms of the relevant contracts and agreements. The directors of the Company have already taken certain alternatives to recover the receivables from these customers and borrowers, such as to take legal actions against them.

In the circumstances of default in settlement, the directors of the Company considered that there is evidence indicating that such Doubtful Loan and Account Receivables are credit-impaired. Taking into account of the holding of collaterals and the low possibility to recover the receivables from these customers and borrowers, the Group recognised full impairment of such outstanding Doubtful Loan and Account Receivables amounted to approximately RMB464,163,000. The directors of the Company consider that the information used in its impairment assessment represented the best available estimates from the information available.

## 19. FINANCE LEASE, LOAN AND ACCOUNT RECEIVABLES – continued

*Notes: – continued*

(d) Account receivables – continued

The below table reconciled the impairment loss allowance of Group's finance lease, loan and account receivables for both years:

| | Finance lease receivables RMB'000 | Loan receivables RMB'000 | Receivables from guarantee customers RMB'000 | Account receivables RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2022 | 2,858 | 5,517 | 18,578 | 4,877 | 31,830 |
| Impairment loss recognised | 1,920 | 5,013 | 3,657 | 46,246 | 56,836 |
| Reversal of impairment loss | – | (3,086) | – | (1,842) | (4,928) |
| Disposal of subsidiaries | – | (2,431) | – | (45,429) | (47,860) |
| Receivables written off | – | – | (3,438) | – | (3,438) |
| At 31 December 2022 and 1 January 2023 | **4,778** | **5,013** | **18,797** | **3,852** | **32,440** |
| Impairment loss recognised | **75,499** | **645,484** | **10,653** | **147,381** | **879,017** |
| Reversal of impairment loss | **(1,308)** | **(42)** | **–** | **(232)** | **(1,582)** |
| At 31 December 2023 | **78,969** | **650,455** | **29,450** | **151,001** | **909,875** |

Details of impairment assessment for the Group's finance lease, loan and account receivables are set out in note 41(ii).

During the years ended 31 December 2023 and 31 December 2022, the Group did not dispose of any of its finance lease, loan and account receivables to independent third party.

## 20. OTHER FINANCIAL ASSETS

| | *Notes* | **2023 RMB'000** | 2022 RMB'000 |
|---|---|---|---|
| Financial assets measured at FVTPL | | | |
| − Distressed assets | (a) | **1,107** | 49,021 |
| − Fund investments | (b) | **–** | 92,764 |
| − Consideration receivables − Dividend Entitlement | (c) | **346,122** | 330,197 |
| | | **347,229** | 471,982 |
| Analyses as: | | | |
| − Current | | **346,122** | 92,164 |
| − Non-current | | **1,107** | 379,818 |
| | | **347,229** | 471,982 |

*Notes:*

(a) Distressed assets

The distressed assets represented equity and debt instruments without open or active quotations.

(b) Fund investments

The amounts mainly represented the interest in a limited partnership established in the Cayman Islands which is engaging in fund investment. During the year ended 31 December 2023, the Group disposed of all of its interest in the limited partnership.

## 20. OTHER FINANCIAL ASSETS – continued

*Notes: – continued*

(c) Consideration receivables – Dividend Entitlement

The amount represents the consideration receivable regarding the dividend to be received by the purchaser for its shares of dividend on Zhongcheng ("Dividend Entitlement").

On 12 November 2020, the Group entered into a sale and purchase agreement with an independent third party to disposal 51% equity interest in Zhongcheng and its subsidiaries and part of the consideration representing dividend to be received by the purchaser for its shares in Fujian China Overseas up to RMB387,600,000 (i.e. "Dividend Entitlement"). Pursuant to the sales and purchase agreement and the supplementary agreement, the Dividend Entitlement, up to RMB387,600,000, to be received by the purchaser for the period commencing from date of sale and purchase agreement up to 31 December 2023, will be distributed to the Group as part of the consideration in this disposal transaction. Any dividend amount in excess of the Dividend Entitlement will then be distributed to the purchaser and the Group according to their respective shareholding in Zhongcheng. In the event that the total amount of dividends received by the Group is less than RMB387,600,000 as at 31 December 2023, the purchaser shall pay the shortfall to the Group by way of cash with 120 days from 31 December 2023 which was extended to 30 April 2025.

At the 31 December 2023 and 31 December 2022, the fair values of the consideration receivable was approximately RMB346,122,000 and RMB330,197,000, respectively and thus, an increase in fair value of approximately RMB15,925,000 has been credited to the consolidated profit or loss for the year ended 31 December 2023. The fair value was estimated by applying the discounted cash flow approach at a discount rate of 8.87% and 8.33% at 31 December 2023 and 31 December 2022, respectively. The Dividend Entitlement has been included in "other financial assets" of the consolidated statement of financial position.

(d) Fair value measurement of other financial assets

Details of the other financial assets measured at Level 3 recurring fair values are as followings:

| | **2023**<br>**RMB'000** | 2022<br>RMB'000 |
|---|---|---|
| Financial assets measured at FVTPL | | |
| – Distressed assets | **1,107** | 49,021 |
| – Fund investment | **–** | 92,764 |
| – Consideration receivables | **346,122** | 330,197 |
| | **347,229** | 471,982 |

There were no transfers into or out of level 3 for both years.

## 20. OTHER FINANCIAL ASSETS – continued

*Notes: – continued*

(d) Fair value measurement of other financial assets – continued

The movements during the year in the balance of these financial assets at level 3 fair value measurements are as follows:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Opening balance | **471,982** | 480,878 |
| Additions | **35,200** | 88,220 |
| Disposal of subsidiaries *(note 37)* | **–** | (97,644) |
| Other disposals | **(92,164)** | (28,560) |
| Fair value (loss) gain recognised in profit or loss | **(67,789)** | 41,742 |
| Fair value gain recognised in other comprehensive income | **–** | 1,746 |
| Loss on derecognition recognised in profit or loss | **–** | (14,400) |
| Closing balance | **347,229** | 471,982 |

## 20. OTHER FINANCIAL ASSETS – continued

*Notes: – continued*

(d) Fair value measurement of other financial assets – continued

*Fair value valuation techniques and key inputs*

The Group's financial assets carried at fair values at 31 December 2023 and 31 December 2022 arrived at on the basis of valuations carried out on those dates by qualified professional valuers not connected to the Group. The valuation techniques used in determining the fair value measurement of level 3 financial instruments is arrived with discount cash flow approach and market approach with details as follows.

| | Fair values as at 31 December | | Valuation technique(s) | Key valuation input(s) and significant unobservable input(s) | Relationship of unobservable input(s) to fair value |
|---|---|---|---|---|---|
| | **2023** | 2022 | | | |
| | **RMB'000** | RMB'000 | | | |
| Financial assets – Distressed assets – equity investment | **1,107** | N/A | Asset-based approach | • Adjusted net asset value: RMB22,140,000 (2022: N/A)<br>• Discount for lack of marketability: 18.1% (2022: N/A). | • The higher the adjusted net asset value, the higher the fair value;<br>• The higher the discount rates, the lower the fair value. |
| – Distressed assets – debt instrument | **–** | 49,021 | Discounted cash flow with future cash flow that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level | • Expected recoverable amount: RMBnil (2022: RMB49,000,000 to RMB60,786,000);<br>• Year to maturity: 1 year to 2 years (2022: 1 year to 2 years);<br>• Discount rates that correspond to the expected risk level: 24% (2022: 9% to 24%). | • The higher the recoverable amounts, the higher the fair value;<br>• The shorter the year to maturity, the higher the fair value;<br>• The higher the discount rates, the lower the fair value. |

## 20. OTHER FINANCIAL ASSETS – continued

*Notes: – continued*

(d) Fair value measurement of other financial assets – continued

*Fair value valuation techniques and key inputs – continued*

| | Fair values as at 31 December 2023 RMB'000 | Fair values as at 31 December 2022 RMB'000 | Valuation technique(s) | Key valuation input(s) and significant unobservable input(s) | Relationship of unobservable input(s) to fair value |
|---|---|---|---|---|---|
| – Fund investment | **–** | 600 | Discounted cash flow with future cash flow that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. | • Expected recoverable amount: RMBnil (2022: RMB600,000 to RMB654,000);<br>• Year to maturity: 1 year to 2 years (2022: 1 year to 2);<br>• Discount rates that correspond to the expected risk level: 9% (2022: 9%). | • The higher the recoverable amounts, the higher the fair value;<br>• The shorter the year to maturity, the higher the fair value;<br>• The higher the discount rates, the lower the fair value. |
| – Fund investment | **N/A** | 92,164 | Market approach | • Discount for lack of marketability: N/A (2022: 15.8%) | • The higher the marketability discount, the lower the fair value |
| – Consideration receivables | **346,122** | 330,197 | Discounted cash flow with future cash flow that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level. | • Expected recoverable amount: RMB387,600,000 (2022: RMB387,600,000);<br>• Year to maturity: 1.33 years (2022: 1 year to 2 years);<br>• Discount rates that correspond to the expected risk level: 8.87% (2022: 8.33%) | • The higher the recoverable amounts, the higher the fair value;<br>• The shorter the year to maturity, the higher the fair value;<br>• The higher the discount rates, the lower the fair value |
| | **347,229** | 471,982 | | | |

There has been no change in the valuation technique used in the current and prior years.

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Notes | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| Consideration receivables | (a) | **862,283** | 1,262,693 |
| Amount due from an associate *(see note 17)* | | **822,429** | 588,683 |
| Other receivables | (b) | **247,215** | 76,186 |
| Prepaid expenses | | **12,989** | 28,225 |
| Other deposits paid | (b) | **6,040** | 74,306 |
| | | **1,950,956** | 2,030,093 |
| Less: Impairments | | **(1,223,827)** | (26,953) |
| | | **727,129** | 2,003,140 |
| Analysed as: | | | |
| – Current | | **724,835** | 1,191,701 |
| – Non-current | | **2,294** | 811,439 |
| | | **727,129** | 2,003,140 |

*Notes:*

(a) Consideration receivables

The amounts represent the outstanding consideration receivables from the disposal of subsidiaries in prior years and at the end of the reporting period, the breakdowns of the consideration receivables are as followings:

| | Notes | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| *Consideration receivables relating to disposal of:* | | | |
| Differ China and Xiamen Group *(see note 37(b))* | (i) | **–** | 1,007,910 |
| Karhoe Company Limited ("Karhoe") | (ii) | **–** | 156,360 |
| Differ Digital Company Limited and its subsidiaries (the "Differ Digital Group") | (ii) | **–** | 84,747 |
| | | **–** | 1,249,017 |
| Less: Amount is expected to be received within one year | | **–** | (439,820) |
| Non-current portion of consideration receivables | | **–** | 809,197 |

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – continued

*Notes: – continued*

(a) Consideration receivables – continued

(i) Consideration receivables relating to the disposal of Differ China and Xiamen Group ("Differ China and Xiamen Group Consideration Receivables")

As at 1 January 2023, the outstanding balance of the Differ China and Xiamen Group Consideration Receivables, net of allowances amounted to approximately RMB1,007,910,000.

As disclosed in note 38(a), during the year ended 31 December 2023, the Purchaser had not paid the second instalment amounted to RMB150,000,000 of the Differ China and Xiamen Group Consideration Receivables and the amount was still outstanding and lag behind of the payment due date. As such, the Group enforced the Share Charge to set-off the instalment and part of the consideration receivables, i.e. Re-consolidated of the Xiamen Differ Group as described in note 38(a).

Despite the exerted efforts of the directors of the Company to request the Purchaser in settling the revised third instalment of RMB40,000,000 on time, however, up to the date of the approval for issuance of the consolidated financial statements, the Purchaser did not settle the said installment in accordance with the terms of the relevant contracts and agreements.

In the circumstance of repeated default of the Purchaser, the directors of the Company considered that there is evidence indicating that such Differ China and Xiamen Group Consideration Receivables of approximately RMB620,923,000 are credit-impaired. Taking into account the holding of collaterals and the low possibility to recover the receivables from the Purchaser, the Group recognised full impairment of such outstanding Differ China and Xiamen Group Consideration Receivables of approximately RMB607,500,000 which was charged to profit or loss for the year ended 31 December 2023. The directors of the Company consider that the information used in its impairment assessment represented the best available estimates from the information available.

(ii) Consideration receivables relating to the disposal of Karhoe and Differ Digital Group ("Karhoe and Differ Digital Group Consideration Receivables", together with the Differ China and Xiamen Group Consideration Receivables, the "Doubtful Consideration Receivables") in prior years

As at 1 January 2023, the outstanding balance of the Karhoe and Differ Digital Group Consideration Receivables, net of allowances amounted to approximately RMB241,107,000 which was due for settlement during the year ended 31 December 2023.

During the year ended 31 December 2023, despite the exerted efforts of the directors of the Company to request the counterparties in settling the Karhoe and Differ Digital Group Consideration Receivables which were due for settlement during the year ended 31 December 2023, however, the counterparties did not settle the outstanding balances in accordance with the terms of the relevant contracts and agreements. The directors of the Company have already taken certain alternatives to recover the receivables from these counterparties, such as to take legal actions against them.

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – continued

*Notes: – continued*

(a) Consideration receivables – continued

(ii) Consideration receivables relating to the disposal of Karhoe and Differ Digital Group ("Karhoe and Differ Digital Group Consideration Receivables", together with the Differ China and Xiamen Group Consideration Receivables, the "Doubtful Consideration Receivables") in prior years – continued

In the circumstances of default in settlement, the directors of the Company considered that there is evidence indicating that such Karhoe and Differ Digital Group Consideration Receivables of approximately RMB241,360,000 are credit-impaired. Taking into account the holding of collaterals and the low possibility to recover the receivables from the counterparties, the Group recognised full impairment of such outstanding Karhoe and Differ Digital Group Consideration Receivables of approximately RMB241,107,000 which was charged to profit or loss for the year ended 31 December 2023. The directors of the Company consider that the information used in its impairment assessment represented the best available estimates from the information available.

(b) Deposits paid and other receivables

During the year ended 31 December 2023, out of the Group's other receivables, despite the exerted efforts of the directors of the Company to request certain counterparties in settling their receivables or delivery of goods on time, however, such other receivable debtors (the "Doubtful Other Receivables") with an aggregate amount of approximately RMB129,687,000 did not settle their outstanding balances or delivery their promised goods in accordance with the terms of the relevant contracts and agreements. The directors of the Company have already taken certain alternatives to recover the Doubtful Other Receivables from these counterparties, such as to take legal actions against them.

In the circumstance of default in settlement, the directors of the Company considered that there is evidence indicating that such Doubtful Other Receivables are credit-impaired. Taking into account the low possibility to recover the Doubtful Other Receivables from these counterparties and hence, the Group recognised full impairment of such outstanding Doubtful Other Receivables amounted to approximately RMB129,687,000 for the year ended 31 December 2023. The directors of the Company consider that the information used in its impairment assessment represented the best available estimates from the information available.

The directors of the Company consider the carrying amounts of deposits paid and other receivables approximate their fair values.

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES – continued

*Notes: – continued*

(c) Movements of impairment loss allowance

The below table reconciled the impairment loss allowance of the consideration receivables, amount due from an associate and other receivables for both years:

| | Consideration receivables | Amount due from an associate | Other receivables | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2022 | – | 151 | 10,570 | 10,721 |
| Impairment loss recognised | 16,406 | 13,099 | 3,217 | 32,722 |
| Reversal of impairment loss | (2,730) | – | (520) | (3,250) |
| Disposal of subsidiaries | – | – | (13,240) | (13,240) |
| At 31 December 2022 and 1 January 2023 | **13,676** | **13,250** | **27** | **26,953** |
| Impairment loss recognised | **848,607** | **163,285** | **184,982** | **1,196,874** |
| At 31 December 2023 | **862,283** | **176,535** | **185,009** | **1,223,827** |

Details of impairment assessment for the Group's consideration receivables, amount due from an associate and other receivables are set out in note 41(ii).

## 22. INVENTORIES OF PROPERTIES

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Properties held under development | **1,215,444** | 1,274,987 |
| Properties held for sale | **1,870,219** | 2,602,373 |
| | **3,085,663** | 3,877,360 |

*Notes:*

(a) Properties held under development comprises leasehold interests in land are located in the PRC and have lease terms expiring from 30 to 70 years (2022: 30 to 70 years). Right-of-use assets related to interests in leasehold land where the interest in the land is held for development of inventories are included in the same line item as inventories of properties as that within which the corresponding assets.

As at 31 December 2023, properties held under development amounted to approximately RMB1,215,444,000 (2022: RMB1,103,624,000) are expected to be recovered within 12 months.

Upon completion of construction works, properties held under development will be transferred to properties held for sale.

(b) As at 31 December 2023, properties held for sale of RMB1,265,284,000 (2022: RMB1,194,885,000) and property held under development of RMB49,216,000 (2022: Nil) were pledged to secure bank borrowings (note 31). As at 31 December 2023, properties held under development of RMB327,744,000 (2022: RMB126,890,000) were pledged to secure other borrowings (note 31).

As at 31 December 2023, certain bank borrowings which were secured by properties held for sale with carrying amount of RMB359,574,000 (2022: RMB250,674,000) has been overdue. In January 2023, the Group received an Enforcement Ruling from Intermediate People's Court of Xiamen City, Fijian Province. As at 31 December 2023, pursuant to the Enforcement Ruling, property held for sale with carrying amount of RMB525,981,000 (2022: RMB1,039,000,000) had been seized.

As at 31 December 2023, no properties held for sale were pledged to secure the banking facilities granted to customers (2022: RMB105,171,000 were pledged to secure the banking facilities granted to customers) (note 31).

As at 31 December 2023, the Group acquired a property held for sale with the carrying amount of RMB98,318,000 from a related party in which the Group has not yet obtained the title certificate of the property. Pursuant to the property sale and purchase agreement between the Group and the related party, the Group is eligible to recover any losses to be incurred by the Group, if any when the Group is unable to complete the title registration of the property (see note 45(b)) and thus, the directors of the Company consider that the carrying amount of the said property approximates to its fair value.

## 22. INVENTORIES OF PROPERTIES – continued

*Notes: – continued*

(c) Properties held under development for Weihai Zhongtian

In January 2019, the Group received a notification (the "Notification") from Shandong Lid Liquidation Affairs Limited (the "Administrator"), a limited liability company established in the PRC, being appointed by the court as the Administrator of 威海中天房地產有限公司 (Weihai Zhongtian Real Estate Company Limited, "Weihai Zhongtian", formerly known as 威海融璟房地產開發有限公司 (Weihai Rong Jing Property Development Limited)) and responsible for the reorganisation of Weihai Zhongtian, the court has formally approval a wholly-owned subsidiary of the Company and Zhangzhou Fuyi Investment Co., Limited ("Zhangzhou Fuyi") to be the reforming parties to the restructuring plan in respect of Weihai Zhongtian in accordance with the Corporate Bankruptcy Law of the PRC under the supervision of the Administrator (the "Restructuring Plan"). Pursuant to the Notification, the Group and Zhangzhou Fuyi would acquire 51% and 49% of the equity interest in Weihai Zhongtian, respectively with nil consideration.

In July 2020, the Group further acquired 49% equity interest in Weihai Zhongtian and thus, the Group's effective interests in Weihai Zhongtian were changed from 51% to 100%.

Pursuant to the Restructuring Plan, Weihai Zhongtian has to repay the liabilities to the respective creditors under the supervision of the Administrator. In return, the Group obtained the assets in Weihai Zhongtian which are mainly represented by inventories of properties.

As at 31 December 2023, the agreed liabilities of RMB373,508,000 (2022: 376,713,000) is included in other payables (note 27(a)) and the initial carrying amount of the respective inventories of properties that to be realised for the repayment is approximately RMB470,000,000 (2022: RMB470,000,000). Such inventories of properties are restricted for the repayment to the respective creditors under the Restructuring Plan.

(d) Others

The normal operating cycle of the Group's property development generally ranges from one to two years.

The properties under development for sale are all located in the PRC.

During the year ended 31 December 2023, impairments loss for inventories of properties amounted to approximately RMB162,182,000 (2022: RMB47,341,000) was recognised which was charged to profit or loss for the year ended 31 December 2023.

## 23. RESTRICTED BANK DEPOSITS

The amount mainly represented the guarantee deposits for construction of pre-sale properties. In accordance with relevant government requirements, certain property development companies of the Group are required to place the proceeds received from pre-sale of properties as guarantee deposits for construction of properties. Such deposits can only be used for payments for construction costs of relevant property development projects when approval from related government authority is obtained. The restriction will be released upon the completion of construction.

As at 31 December 2023, there is RMB7.9 million bank deposits has been seized for litigation (2022: RMB1.4 million).

As at 31 December 2023 and 31 December 2022, the Group's restricted bank deposits were denominated in RMB and kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

## 24. CASH AND BANK BALANCES – GENERAL ACCOUNTS

Bank balances earn interest at floating rates based on daily bank deposit rates.

As at 31 December 2023, the Group has cash and bank balances denominated in RMB amounting to approximately RMB5,717,000 (2022: RMB13,363,000) kept in the PRC. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

## 25. CASH AND BANK BALANCES – HELD ON BEHALF OF CUSTOMERS

Cash at banks held on behalf of customers are segregated bank accounts which only maintain clients' monies in the course of the conduct of the regulated activities. The Group classified the clients' monies as cash and bank balances – held on behalf of customers under the current assets section of the consolidated statement of financial position and recognised the corresponding payable to respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

As at 31 December 2023, the balance of the cash and bank balances – held on behalf of customers was nil (2022: RMB7,645,000).

## 26. ACCOUNT PAYABLES

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Account payables from property development | **451,901** | 388,164 |
| Account payables from financial services | | |
| – clearing house | **–** | 199 |
| – cash client | **–** | 7,416 |
| | **451,901** | 395,779 |

Included in account payables are creditors with the following ageing analysis, based on invoice dates, as of the end of reporting period:

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Less than 1 month | **170,347** | 155,205 |
| 1 to 3 months | **2,826** | 2,861 |
| More than 3 months but less than 12 months | **7,215** | 1,120 |
| More than 12 months | **271,513** | 236,593 |
| | **451,901** | 395,779 |

As at 31 December 2023, the Group was subject to civil complaints from constructors regarding the immediate settlement of overdue account payables totalling RMB33,644,000 (2022: RMB73,229,000).

## 27. ACCRUALS, OTHER PAYABLES, DEPOSITS RECEIVED AND DEFERRED INCOME

| | *Notes* | **2023 RMB'000** | 2022 RMB'000 |
|---|---|---|---|
| Other payables for Weihai Zhongtian | (a) | **373,508** | 376,713 |
| Accruals, other payables and deposits received | | **505,416** | 420,899 |
| Business and other tax payables | | **191,089** | 80,017 |
| Deposits received from finance lease customers | (b) | **13,664** | 13,664 |
| Deferred income | (c) | **100,904** | 100,904 |
| | | **1,184,581** | 992,197 |
| Analyses as: | | | |
| – Current | | **967,251** | 768,367 |
| – Non-current | | **217,330** | 223,830 |
| | | **1,184,581** | 992,197 |

*Notes:*

(a) Other payables for Weihai Zhongtian

As described in note 22(c) to the consolidated financial statements, the Group received the Notification from the Administrator to be the reforming party to the restructuring plan in respect of Weihai Zhongtian in accordance with the Corporate Bankruptcy Law of the PRC under the supervision of the Administrator.

Pursuant to the restructuring plan, Weihai Zhongtian has to repay the liabilities to the respective creditors under the supervision of the Administrator. In return, the Group obtained the assets in Weihai Zhongtian which are mainly represented by inventories of properties. The basis of the liabilities assumed by the Group was estimated from the realised estimated value of the inventories of properties.

As at 31 December 2023, the agreed liabilities of RMB373,508,000 (2022: RMB376,713,000) is included in other payables. The initial carrying amount of the respective inventories of properties that to be realised for the repayment is approximately RMB470,000,000 (2022: RMB470,000,000) is included in the Group's inventories of properties (note 22(c)).

## 27. ACCRUALS, OTHER PAYABLES, DEPOSITS RECEIVED AND DEFERRED INCOME – continued

*Notes: – continued*

(a) Other payables for Weihai Zhongtian – continued

The nature of these respective creditors mainly include bank loans, trade payables such as construction cost payable and accruals and other tax payables. According to the arrangements under the restructuring plan, the Group will repay these payables to the Administrator in a designated bank account and the Administrator will handle the Group's repayment to the respective creditors. As such, the Group classified these liabilities as other payables.

Other payables amounted to approximately of RMB116,426,000 (2022: RMB116,426,000) is expected to be settled after 1 year from 31 December 2023 while the remaining balance is expected to be settled within 1 year from 31 December 2023 under the Restructuring Plan.

(b) Deposits received from finance lease customers

The amount represents the deposits received from financial leases customers and the details of the financial leases receivables are set out in note 19(a).

As at 31 December 2023, all of the deposits received from finance lease customers are classified as current. As at 31 December 2022, an amount of RMB6,500,000 is expected to be settled after 1 year from 31 December 2022 while the remaining balance is expected to be settled within 1 year from 31 December 2022.

(c) Deferred income

Deferred income represents government grant of RMB100,904,000 (2022: RMB100,904,000) received for construct of certain items of construction in progress will be transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

(d) Others

The directors considered the carrying amounts of accruals, other payables and deposits received approximate their fair values.

## 28. CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Contract liabilities from customer arising from: | | |
| – Sales of properties | **1,234,510** | 2,803,173 |
| – Sales of goods | **–** | 1,903 |
| | **1,234,510** | 2,805,076 |

Contract liabilities are the Group's obligations to transfer goods or services to customers for which the Group has received consideration from customers. The Group receives payment from customers based on billing schedule as established in contracts. Payments are usually received in advance of the performance under the contracts which are from sales of property and sales of goods.

Revenue is recognised when the customers obtains control of the completed properties.

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Revenue recognised during the year that was included in the contract liabilities at the beginning of the year | **1,854,267** | 265,965 |

## 29. LEASE LIABILITIES

The future lease payments are due as follows:

| | 2023 Minimum lease payments RMB'000 | 2023 Present value RMB'000 | 2022 Minimum lease payments RMB'000 | 2022 Present value RMB'000 |
|---|---|---|---|---|
| Not later than one year | **19,110** | **17,994** | 8,971 | 8,467 |
| Later than one year and not later than two years | **16,997** | **13,182** | 2,898 | 2,843 |
| | **36,107** | **31,176** | 11,869 | 11,310 |
| Future interest expenses | **(4,931)** | **–** | (559) | – |
| | **31,176** | **31,176** | 11,310 | 11,310 |

Analysed as reporting purpose as:

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Analyses as: | | |
| – Current | **17,994** | 8,467 |
| – Non-current | **13,182** | 2,843 |
| | **31,176** | 11,310 |

**29. LEASE LIABILITIES – continued**

The followings are the amounts recognise in profit or loss and cash flow for the lease payment for the years ended 31 December 2022 and 31 December 2023:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Interest on lease liabilities | **1,465** | 1,217 |
| Total cash outflow for leases | **19,073** | 22,145 |
| Expenses relating to short-term leases | **694** | 1,487 |

The Group leases a number of properties in the jurisdictions from which it operates. The leases typically run for a period of 2 months to 5 years (2022: 2 months to 5 years). The lease payments are fixed over the lease term. For those leases of properties with lease terms of 12 months or less, the Group applies the "short-term lease" recognition exemptions for these leases.

## 30. FINANCIAL GUARANTEES

(a) Guarantee for bank facilities granted to certain customers and associates:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Financial guarantees to banks for bank facilitates granted to certain customers of the Group | **307,516** | 453,011 |
| Financial guarantee liabilities recognised | **98,516** | 138,882 |

**Financial guarantees given to banks and other counterparties granted to certain customers**

As at 31 December 2023, the Group had given financial guarantees to banks for banking facilities granted to certain customers of the Group with maximum amount of approximately RMB307,516,000 (2022: RMB453,011,000).

As at 31 December 2023, among the financial guarantee amount, approximately RMB307,516,000 (2022: RMB273,468,000) is related to certain customers of the Company with their debts are default in payment. Such guarantees are secured by (i) properties held by certain customers with amount of RMB128,800,000 (2022: RMB135,400,000); (ii) investment properties with carrying amount of RMB80,200,000 held by the associate (2022: RMB95,409,000 held by the Group (note 16)); (iii) corporate guarantee provided by the Company and (iv) personal guarantee and corporate guarantee provided by Mr. Hong and Ms. Shi Hongjiao ("Ms. Shi"); and (v) corporate guarantee provided by independent third parties.

In the event of failure to repay the outstanding balance, the creditor has the right to proceed the sale of pledged properties held by certain customers under the banking facilities. The directors, with reference to the legal opinion from a PRC lawyer, considered that it is highly probably the creditors will demand the Company and the Group for the shortfall of the default amount after taken into consideration of the value of the pledged properties held by certain customers. Accordingly, the remaining outstanding amount of RMB98,516,000 (2022: RMB138,068,000) are recognised as financial guarantee liabilities as at 31 December 2023, which was the directors' best estimate on the probable cash outflow on the obligation of these financial guarantee contracts.

As at 31 December 2023, all the financial guarantees granted to customers are default in payment and financial guarantee liabilities are recognised as mentioned above.

30. **FINANCIAL GUARANTEES – continued**

(a) Guarantee for bank facilities granted to certain customers and associates: – continued

**Financial guarantees given to banks and other counterparties granted to certain customers – continued**

As at 31 December 2022, the remaining financial guarantees granted to certain customers of the Group which were not default in payment were approximately RMB179,543,000. Among the balance, RMB70,543,000 was secured by properties held for sale of RMB109,000,000. An ECL allowance of RMB814,000 was provided as at 31 December 2022.

Mr. Hong is the sole shareholder of Expert Corporate Limited, the substantial shareholder of the Company, and Ms. Shi is the wife of Mr. Hong.

(b) Guarantees in respect of mortgage facilities for certain purchasers of the Group's properties:

The Group has arranged mortgage loan facility with certain banks for purchasers of property units and provided guarantees to banks to secure obligations of such purchasers of repayments. The outstanding guarantees amounted to approximately RMB1,086,712,000 (2022: RMB1,696,867,000) at the reporting date. The guarantees provided by the Group to the banks would be released upon (i) the satisfaction of mortgage loans by the purchasers of properties; or (ii) receiving the real estate owner certificates of the respective properties by the banks from the buyers as security for the mortgage loan facilities granted. No provision for the Group's obligation under the guarantees has been made as the directors considered that it was not probable that the repayments of the loans would be in default. The directors also considered that the fair value of the underlying properties is able to cover the outstanding mortgage loans generated by the Group in the event the buyer default payments to the banks. The Group has not recognised any income in respect of these guarantees as its fair value is considered to be minimal by the directors.

## 31. BANK AND OTHER BORROWINGS

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| *Secured borrowings:* | | |
| Bank borrowings | **1,224,192** | 290,614 |
| Other borrowings | **354,335** | 356,717 |
| | **1,578,527** | 647,331 |
| *Unsecured borrowings:* | | |
| Other borrowings | **3,003** | 179 |
| | **1,581,530** | 647,510 |
| The carrying amounts of bank and other borrowings based on scheduled repayment dates set out in the loan agreements | | |
| Within one year or on demand | **1,465,030** | 647,510 |
| More than two years, but not more than five years | **116,500** | – |
| | **1,581,530** | 647,510 |
| The carrying amounts of bank and other borrowings that become immediately due and payable due to breach of loan covenants and/ or contain a repayment on demand clause/or payable within one year or demand which was shown under current liabilities | **(1,562,030)** | (647,510) |
| Amounts shown under non-current liabilities | **19,500** | – |

**Bank and other borrowing as at 31 December 2023**

As at 31 December 2023, the Group has variable interest-rate bank and other borrowings which carry interest ranging from 5.39% to 7.00% per annum (2022: 4.7% to 6.8% per annum).

**31. BANK AND OTHER BORROWINGS – continued**

As at 31 December 2023, bank borrowings are secured by followings:

- approximately RMB250,674,000 were secured by properties held for sale with carrying amount of RMB1,066,584,000, and guaranteed by Mr. Hong, Ms. Shi and a subsidiary of the Company;
- approximately RMB108,900,000 were secured by investment properties with carrying amount of RMB275,800,000 and properties held for sale with carrying amount of RMB198,700,000 and guaranteed by a subsidiary of the Company;
- approximately RMB800,000,000 were secured by investment properties with carrying amount of RMB590,300,000 and properties held under development with carrying amount of RMB14,655,000 and guaranteed by Mr. Hong, certain independent third parties, and the Company;
- approximately RMB35,000,000 were secured by properties held under development with carrying amount of RMB24,308,000;
- approximately RMB9,500,000 were secured by properties held under development with carrying amount of RMB7,323,000;
- approximately RMB10,000,000 were secured by properties held under development with carrying amount of RMB2,930,000;
- approximately RMB10,117,000 were secured by investment properties with carrying amount of RMB590,300,000, and guaranteed by Mr. Hong, Ms. Shi and the Company.

As at 31 December 2023, the bank borrowing of approximately RMB1,169,692,000 has been overdue and repayable on demand. The bank borrowing of RMB1,214,074,000 was secured by properties held for sale with carrying amount of RMB1,265,284,000, properties under development with carrying amount of RMB49,216,000 and corporate guarantee from a subsidiary of the Company.

Such event of default resulted in cross-default of certain borrowings and therefore the bank are contractually entitled to request for immediate repayment of the outstanding loan amount of RMB810,117,000 as at 31 December 2023.

As at 31 December 2023, other borrowings are secured by followings:

- approximately RMB45,475,000 were secured by property, plant and equipment with carrying amount of RMB506,574,000, properties held under development with carrying amount of RMB327,744,000, entire interest of a subsidiary of the Company and corporate guarantees from two subsidiaries of the Company; and
- approximately RMB308,860,000 were secured by personal guarantee from Mr. Hong.

## 31. BANK AND OTHER BORROWINGS – continued

**Bank and other borrowing as at 31 December 2022**

As at 31 December 2022, bank borrowings are secured by followings:

- approximately RMB250,674,000 were secured by properties held for sale with carrying amount of RMB1,039,000,000, and guaranteed by Mr. Hong, Ms. Shi and a subsidiary of the Company; and

- approximately RMB39,940,000 were secured by properties held for sale with carrying amount of RMB155,885,000 and guaranteed by the Company.

As at 31 December 2022, a bank borrowing of approximately RMB250,674,000 has been overdue and repayable on demand. The bank borrowing of RMB250,674,000 was secured by properties held for sale with carrying amount of RMB1,039,000,000 and corporate guarantee from a subsidiary of the Company.

Such event of default resulted in cross-default of certain borrowings and therefore the bank are contractually entitled to request for immediate repayment of the outstanding loan amount of RMB39,940,000 as at 31 December 2022. Subsequent to the reporting period, the outstanding amount has been fully settled.

As at 31 December 2022, other borrowings are secured by followings:

- approximately RMB82,866,000 were secured by properties under development with carrying amount of RMB126,890,000, investment properties with carrying amount of RMB674,434,000, entire interest of a subsidiary of the Company and corporate guarantees from two subsidiaries of the Company; and

- approximately RMB273,851,000 were secured by personal guarantee from Mr. Hong.

## 32. CORPORATE BONDS

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Corporate bonds | **669,447** | 796,609 |
| The carrying amounts of corporate bonds based on scheduled repayment dates set out in the loan agreements | | |
| Within one year or on demand | **563,157** | 653,961 |
| More than one year, but not more than two years | **75,600** | 46,640 |
| More than two years, but not more than five years | **30,690** | 96,008 |
| | **669,447** | 796,609 |
| The carrying amounts of corporate bonds that become immediately due and payable due to breach of bond covenants and/or contain a repayment on demand clause/or payable within one year or demand which was shown under current liabilities | **(669,447)** | (653,961) |
| Amounts shown under non-current liabilities | **–** | 142,648 |

During the year ended 31 December 2023, the Company issued Hong Kong Dollar ("HK$") denominated corporate bonds with principal amount of approximately HK$154,201,000 (equivalent to RMB138,781,000) (2022: HK$705,461,000 (equivalent to RMB620,806,000)) and repaid corporate bonds of principal amount of approximately HK$315,609,000 (equivalent to RMB284,048,000) (2022: HK$204,174,000 (equivalent to RMB179,673,000)).

The corporate bonds bear interests from 1% to 12% (2022: 1.0% to 9.0%) per annum. The interests of the corporate bonds are payable quarterly to annually (2022: quarterly to annually) in arrears every year. The corporate bonds will mature on the six months to eight years (2022: six months to eight years) from the issue dates.

**32. CORPORATE BONDS – continued**

As at 31 December 2023, among the balance, corporate bonds of approximately HK$95,750,000 (equivalent to RMB86,175,000) (2022: HK$293,839,000 (equivalent to RMB258,578,000)) are guaranteed by Mr. Hong, corporate bonds of approximately HK$522,830,000 (equivalent to RMB470,547,000) (2022: HK$448,829,000) (equivalent to RMB394,970,000)) are guaranteed by Mr. Ng and no corporate bonds (2022: corporate bonds of approximately HK$1,000,000 (equivalent to RMB880,000)) are guaranteed by Ms. Shi.

As at 31 December 2023 and 31 December 2022, the Group did not fulfil the requirements to maintain certain financial position ratio as specified in the bond agreements and the bondholders are contractually entitled to request for immediate repayment of the outstanding loan amounts. Further, as described in note 2(a), the Company was served with a winding-up petition from a corporate bond holder issued with the High Court of Hong Kong for the winding-up of the Company. In this connection, these events resulted in cross-default of the Group's corporate bonds and thus, the Group's outstanding corporate bonds with total carrying amount of approximately HK$743,830,000 (equivalent to RMB669,447,000) (2022: HK$3,000,000 (equivalent to RMB2,640,000)) were presented as current liabilities at the end of the reporting period.

**33. DEFERRED TAX ASSETS AND LIABILITIES**

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2023**<br>**RMB'000** | 2022<br>RMB'000 |
|---|---|---|
| Deferred tax assets | **10,370** | 48,997 |
| Deferred tax liabilities | **(122,146)** | (170,336) |
| | **(111,776)** | (121,339) |

Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using principle taxation rate of 25% for the year (2022: 25%).

## 33. DEFERRED TAX ASSETS AND LIABILITIES – continued

The following are the major deferred tax assets and liabilities recognised by the Group and the movements thereon during the current and prior years:

| | Revaluation of investment properties | Fair value adjustment on inventories of properties arising from acquisition of subsidiaries | Fair value adjustments on financial instruments | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At 1 January 2022** | (41,565) | (125,510) | 36,897 | (130,178) |
| Acquisition of a subsidiary *(note 38(b))* | (43,733) | (34,308) | – | (78,041) |
| Disposal of subsidiaries *(note 37(b))* | 44,083 | 34,308 | – | 78,391 |
| (Charged) credited to profit or loss *(note 11)* | (3,611) | – | 12,100 | 8,489 |
| **At 31 December 2022 and 1 January 2023** | **(44,826)** | **(125,510)** | **48,997** | **(121,339)** |
| Acquisition of a subsidiary *(note 38(a))* | **(38,858)** | **(29,547)** | **–** | **(68,405)** |
| Disposal of subsidiaries *(note 37(a))* | **3,681** | **–** | **–** | **3,681** |
| (Charged) credited to profit or loss *(note 11)* | **23,714** | **89,200** | **(38,627)** | **74,287** |
| **At 31 December 2023** | **(56,289)** | **(65,857)** | **10,370** | **(111,776)** |

## 33. DEFERRED TAX ASSETS AND LIABILITIES – continued

As at 31 December 2023, the aggregate amount of temporary differences associated with the PRC subsidiaries' undistributed retained earnings for which deferred tax liabilities have not been recognised are approximately RMB1,425,921,000 (2022: RMB1,395,132,000). No deferred tax liabilities were recognised because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not be reversed in the foreseeable future.

The Group had unrecognised deferred tax assets arising from tax losses of approximately RMB734,963,000 (2022: RMB256,785,000) as at 31 December 2023. Tax losses of RMB611,425,000 (2022: RMB240,650,000) are available, within a maximum period of five years in the PRC, for offsetting against future taxable profits of the relevant entities in the Group in which the losses arose. The remaining tax losses of RMB123,538,000 (2022: RMB16,135,000) may be carried forward indefinitely. Deferred tax assets have not been recognised for such losses at the reporting date due to the unpredictability of future profit streams in the relevant subsidiaries in the PRC and/or Hong Kong.

## 34. SHARE CAPITAL

| | Number of ordinary shares | Nominal value of share capital | Equivalent nominal value of share capital |
|---|---|---|---|
| | '000 | HK$'000 | RMB'000 |
| **Ordinary share of HK$0.0025 each** | | | |
| **Authorised:** | | | |
| At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023 | 20,000,000 | 50,000 | 39,000 |
| **Issued and fully paid:** | | | |
| At 1 January 2022, 31 December 2022 and 1 January 2023 | 7,208,386 | 18,021 | 14,734 |
| First Placing of shares (note 34(1)(a)) | 1,407,132 | 3,518 | 3,166 |
| Second Placing of shares (note 34(1)(b)) | 363,620 | 909 | 841 |
| As at 31 December 2023 | 8,979,138 | 22,448 | 18,741 |

**34. SHARE CAPITAL – continued**

**(1) The movements of share capital of the Company during the year ended 31 December 2023 are as followings:**

**(a) First Placing of shares**

Pursuant to the Company's announcement dated 17 April 2023, on 17 April 2023, the Company and a placing agent (the "First Placing Agent") entered into a placing agreement (the "First Placing Agreement"), pursuant to which the Company has conditionally agreed to place through the First Placing Agent up to an aggregate of 1,441,677,576 shares (the "First Placing Shares"), to certain placees who and whose beneficial owners are Independent Third Parties at HK$0.140 per First Placing Share (the "First Placing Price") (the "First Placing").

The First Placing Price of HK$0.140 per First Placing Share represented (i) a discount of approximately 6.67% to the closing price of HK$0.150 per share as quoted on the Stock Exchange on 17 April 2023; and (i) a discount of approximately 9.09% to the average closing price of HK$0.154 per share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding 17 April 2023.

The First Placing Shares were allotted and issued pursuant to the General Mandate granted to the directors at the annual general meeting of the Company held on 29 June 2022. The allotment and issue of the First Placing Shares was not subject to shareholders' approval.

Pursuant to the Company's announcement dated 9 May 2023, all the conditions of the First Placing have been fulfilled and completion of the First Placing took place on 9 May 2023. A total of 1,407,132,000 Placing Shares have been successfully placed to those placees at the First Placing Price of HK$0.140 per First Placing Share pursuant to the terms and conditions of the First Placing Agreement.

**34. SHARE CAPITAL – continued**

**(1) The movements of share capital of the Company during the year ended 31 December 2023 are as followings: – continued**

**(b) Second Placing of shares**

Pursuant to the Company's announcement dated 28 September 2023, on 28 September 2023, the Company and a placing agent (the "Second Placing Agent") entered into a placing agreement (the "Second Placing Agreement"), pursuant to which the Company has conditionally agreed to place through the Second Placing Agent up to an aggregate of 1,723,103,976 shares (the "Second Placing Shares"), to certain placees who and whose beneficial owners are Independent Third Parties at HK$0.055 per Second Placing Share (the "Second Placing Price") (the "Second Placing").

The Second Placing Price of HK$0.055 per Second Placing Share represented (i) a discount of 16.7% to the closing price of HK$0.066 per share as quoted on the Stock Exchange on 28 September 2023; and (ii) a discount of 16.7% to the average of the closing prices per share of HK$0.066 as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding 28 September 2023.

The Second Placing Shares were allotted and issued pursuant to the General Mandate granted to the directors at the annual general meeting of the Company held on 28 June 2023. The allotment and issue of the Second Placing Shares was not subject to shareholders' approval.

Pursuant to the Company's announcement dated 11 October 2023, all the conditions of the Second Placing have been fulfilled and completion of the Second Placing took place on 11 October 2023. A total of 363,620,000 Second Placing Shares have been successfully placed to those placees at the Second Placing Price of HK$0.055 per Second Placing Share pursuant to the terms and conditions of the Second Placing Agreement.

**34. SHARE CAPITAL – continued**

**(2) The movements of share capital of the Company subsequent to 31 December 2023 are as followings:**

Subsequent to 31 December 2023 and up to the date of the approval for issuances of the consolidated financial statements, the movements of the share capital of the Company are as followings:

(a) Capital Reorganisation, comprised the Share Consolidation and Increase in Authorised Share Capital as described below:

(i) Share Consolidation

Pursuant to the Company's announcement dated 19 December 2023, the Company implemented the share consolidation (the "Share Consolidation") on the basis that every ten (10) existing shares (the "Existing Shares") of par value of HK$0.0025 each would be consolidated into one (1) consolidated share (the "Consolidated Share") of HK$0.025 each.

On 19 December 2023, the authorised share capital of the Company was HK$50,000,000 divided into 20,000,000,000 Existing Shares of par value of HK$0.0025 each, of which 8,979,139,880 Existing Shares have been issued and were fully paid or credited as fully paid.

The Share Consolidation was approved by the shareholders of the Company at the extraordinary general meeting held on 19 February 2024.

Immediately after the Share Consolidation became effective on 21 February 2024, the authorised share capital of the Company was changed to HK$50,000,000 divided into 2,000,000,000 Consolidated Shares of par value of HK$0.025 each, of which 897,913,988 Consolidated Shares were in issue and fully paid or credited as fully paid.

Upon the Share Consolidation became effective, the Consolidated Shares rank pari passu in all respects with each other.

**34. SHARE CAPITAL − continued**

**(2) The movements of share capital of the Company subsequent to 31 December 2023 are as followings: − continued**

(a) Capital Reorganisation, comprised the Share Consolidation and Increase in Authorised Share Capital as described below: − continued

(ii) Increase in Authorised Share Capital

Pursuant to the Company's announcement dated 19 December 2023, the Company proposed to increase the authorised share capital of the Company from HK$50,000,000 divided into 20,000,000,000 Existing Shares (equivalent to 2,000,000,000 Consolidated Shares) to HK$250,000,000 divided into 100,000,000,000 Existing Shares (equivalent to 10,000,000,000 Consolidated Shares) by the creation of an additional 80,000,000,000 new Existing Shares (equivalent to 8,000,000,000 new Consolidated Shares) (the "Increase in Authorised Share Capital").

The Increase in Authorised Share Capital was approved by the shareholders of the Company at the extraordinary general meeting held on 19 February 2024.

Immediately after the Increase in Authorised Share Capital became effective on 21 February 2024, the authorised share capital of the Company was changed to HK$250,000,000 divided into 10,000,000,000 Consolidated Shares of par value of HK$0.025 each.

(b) Placing

Pursuant to the Company's announcement dated 19 December 2023, on 19 December 2023, the Company and a placing agent (the "Placing Agent") entered into a placing agreement (the "Placing Agreement"), pursuant to which the Company has conditionally agreed to place through the Placing Agent, on a partially underwritten basis up to HK$10,000,000 (representing 27,777,778 new Consolidated Shares), 138,888,889 new Consolidated Shares (the "Placing Shares") to certain placees who and whose beneficial owners are Independent Third Parties at HK$0.36 per Placing Share (the "Placing Price") (the "Placing").

**34. SHARE CAPITAL – continued**

**(2) The movements of share capital of the Company subsequent to 31 December 2023 are as followings: – continued**

(b) Placing – continued

The Placing Price of HK$0.36 per Placing Share represented (i) a discount of approximately 34.5% to the closing price of HK$0.055 per share as quoted on the Stock Exchange on 19 December 2023, being the date of the Placing Agreement (assuming the Share Consolidation has become effective); (ii) a discount of approximately 39.2% to the average closing price of HK$0.0592 per share on the Stock Exchange for the five (5) consecutive trading days immediately prior to the date of the Placing Agreement (assuming the Share Consolidation has become effective); and (iii) a discount of approximately 44.4% to the average closing price of HK$0.0647 per share on the Stock Exchange for the ten (10) consecutive trading days immediately prior to the date of the Placing Agreement (assuming the Share Consolidation has become effective).

The Placing Shares were allotted and issued under the special mandate (the "Specific Mandate") which was approved by the shareholders of the Company at the extraordinary general meeting held on 19 February 2024.

Pursuant to the Company's announcement dated 29 February 2024, all the conditions of the Placing have been fulfilled and completion of the Placing took place on 29 February 2024. A total of 41,510,000 Placing Shares have been successfully placed to those placees at the Placing Price of HK$0.36 per Placing Share pursuant to the terms and conditions of the Placing Agreement.

The Placing Shares rank pari passu in all respects with the shares in issue on the date of allotment and issue of the Placing Shares.

Details of the above are set out in the Company's announcements dated 19 December 2023, 5 January 2024, 26 January 2024 and 29 February 2024 and the Company's circular dated 26 January 2024.

## 35. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 26 November 2013 for the purpose of providing incentives or rewards to any employees of the Company and any other eligible persons for their contribution to the Group. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date it was adopted.

During the year ended 31 December 2023 and 31 December 2022, no share option was granted, exercised, cancelled or lapsed under the Share Option Scheme and no outstanding option as at 31 December 2023 and 31 December 2022.

## 36. RETIREMENT BENEFITS PLANS

### (a) Hong Kong

The Group has joined a Mandatory Provident Fund Scheme (the "MPF Scheme") for its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

### (b) The PRC

The employees of the Group's subsidiaries in the Mainland China are members of a state-managed retirement benefit scheme operated by the government of the Mainland China. The subsidiaries are required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

No forfeited contributions have been used to reduce the level of contributions in both years.

## 37. DISPOSAL OF SUBSIDIARIES

### (a) For the year ended 31 December 2023

On 25 December 2023, the Group entered into a sale and purchase agreement with an associate to dispose of 100% equity interest in Xiamen Lun Hui Trading Company Limited ("Xiamen Lun Hui") at consideration of RMB2,000,000. The principal business of the Xiamen Lun Hui is engaged in trading of commodity in the PRC. The disposal was completed on 31 December 2023 and the Group recognised a loss on disposal of Xiamen Lun Hui of approximately RMB47,223,000, which was charged to the profit or loss for the year ended 31 December 2023.

The net assets of Xiamen Lun Hui at the date of disposal were as follow:

| | Xiamen Lun Hui<br>RMB'000 |
|---|---|
| **Consideration received:** | |
| Cash consideration | 2,000 |
| **Analysis of assets and liabilities over which control was lost:** | |
| Investment properties | 80,200 |
| Prepayments, deposits and other receivables | 43 |
| Cash and bank balances | 7 |
| Accruals, other payables and deposits received | (8,980) |
| Deferred tax liabilities | (3,681) |
| Tax payable | (18,366) |
| Net assets disposed of | 49,223 |
| **Loss on disposal of the subsidiary:** | |
| Cash consideration | 2,000 |
| Net assets disposal of | (49,223) |
| Loss on disposal of the subsidiary | (47,223) |
| **Net cash inflow arising on disposal:** | |
| Cash consideration | 2,000 |
| Cash and bank balances disposed of | (7) |
| | 1,993 |

## 37. DISPOSAL OF SUBSIDIARIES – continued

### (b) For the year ended 31 December 2022

(1) On 7 January 2022, the Group entered into a sale and purchase agreement with an associate to dispose of 100% equity interest in Xiamen Differ Good Investment Consulting Company Limited and its subsidiary ("Xiamen Differ Good Group") at consideration of RMB25,000,000. The principal business of the Xiamen Differ Good Group is engaged in financial services in the PRC. The disposal was completed on 10 January 2023 and the Group recognised a gain on disposal of Xiamen Differ Good Group of approximately RMB10,558,000.

(2) Pursuant to the Company's announcement dates 23 December 2022, The Group entered into a sale and purchase agreement (the "Sales and Purchase Agreement") with an independent third party (the "Purchaser") and pursuant to which (i) the Purchaser has agreed to acquire and the Group has agreed to sell the entire equity interests in Differ Group (China) Company Limited ("Differ China") and its subsidiaries ("Differ China Group") (the "Sales Shares") and related amounts due from Differ China Group (the "Sale Loan"); and (ii) the Purchaser has also agreed to acquire and the Group has agreed to sell the entire equity interests in Lishui Fu Feng Cultural Tours Company Limited and Xiamen Dingzao Commercial Operation Management Company Limited (collectively, the "Xiamen Differ Group", together with the Differ China Group, the "Differ China and Xiamen Group") (the "Target Shares"), in an aggregate for the consideration of RMB1,067,769,000 (the "Consideration", comprising of the share consideration for the Sale Shares and Target Shares of RMB850,000,000 (the "Share Consideration") and the consideration of the Sale Loan of RMB217,769,000 (the "Loan Consideration")).

The Share Consideration shall be paid by the Purchaser in the following manner:

1. The first instalment of RMB50,000,000 within thirty (30) business days after the completion of the Sales and Purchase Agreement;

2. The second instalment of RMB150,000,000 on or before 31 July 2023;

3. The third instalment of RMB200,000,000 on or before 31 January 2024;

4. The fourth instalment of RMB200,000,000 on or before 31 July 2024; and

**37. DISPOSAL OF SUBSIDIARIES – continued**

**(b) For the year ended 31 December 2022 – continued**

(2) – continued

5. The fifth instalment of RMB250,000,000 on or before 31 January 2025.

The Loan Consideration shall be paid by the Purchaser on or before 31 January 2026.

The principal business of the Differ China and Xiamen Group is engaged in financial services, property development and investment and commodities trading business in the PRC.

The directors are on the view that the disposal of the Differ China and Xiamen Group was completed on 30 December 2022 and thus, the Group recognised a loss on disposal of Differ China and Xiamen Group of approximately RMB76,576,000, which was charged to the profit or loss for the year ended 31 December 2022.

Details of the above transaction are set out in the Company announcement dated 23 December 2022.

Pursuant to the Sales and Purchase Agreement, the cash consideration in relation to the disposal of Differ China and Xiamen Group was RMB1,067,769,000. At the disposal completion date on 30 December 2022 and 31 December 2022, the gross carrying amount of the consideration receivable was RMB1,021,333,000, which was discounted to its present value using discount rate of 10.2% which was included in "prepayments, deposits and other receivables" of the consolidated statement of financial position (see note 21(a)).

In January 2023, the first instalment of the Share Consideration of RMB50,000,000 has been settled.

(3) On 31 December 2022, the Group entered into a sale and purchase agreement with an independent third party to dispose of 100% equity interest in Differ Construction and Property Services Company Limited and its subsidiaries ("Differ Property Service Group") at consideration of RMB880. The principal business of the Differ Property Service Group is engaged in property management services in the PRC. The disposal was completed on 31 December 2023 and the Group recognised a gain on disposal of Differ Property Service Group of approximately RMB7,534,000.

**37. DISPOSAL OF SUBSIDIARIES – continued**

**(b) For the year ended 31 December 2022 – continued**

(3) – continued

The net assets (liabilities) of the subsidiaries at the date of disposal during the year ended 31 December 2022 were as follow:

| | Xiamen Differ Good Group RMB'000 | Differ China and Xiamen Group RMB'000 | Differ Property Service Group RMB'000 |
|---|---|---|---|
| **Consideration received:** | | | |
| Cash received | 25,000 | – | 1 |
| Deferred cash consideration | – | 1,067,769 | – |
| Deferred cash consideration adjustment | – | (46,436) | – |
| Total consideration | 25,000 | 1,021,333 | 1 |
| **Analysis of assets and liabilities over which control was lost:** | | | |
| Property, plant and equipment | 334 | 4,955 | 325 |
| Investment properties | – | 339,499 | – |
| Goodwill | – | 9,159 | – |
| Other financial assets | – | 97,644 | – |
| Inventories of properties | – | 209,198 | – |
| Loan and account receivables | 12,682 | 757,866 | 3,188 |
| Prepayments, deposits and other receivables | 83,835 | 324,861 | 209 |
| Amounts due from the Group | – | – | 1,519 |
| Cash and bank balances | 55 | 1,470 | 946 |
| Account payables | – | (35,582) | – |
| Accruals, other payables and deposits received | (20) | (86,851) | (13,433) |
| Amounts due to Differ Group | (74,559) | – | – |
| Contract liabilities | – | (12,645) | – |
| Lease liabilities | (405) | (59,819) | (287) |
| Bank borrowings | – | (318,842) | – |
| Provision for taxation | (7,480) | (70,907) | – |
| Deferred tax liabilities | – | (78,391) | – |
| Net assets (liabilities) disposed of | 14,442 | 1,081,615 | (7,533) |

**37. DISPOSAL OF SUBSIDIARIES – continued**

**(b) For the year ended 31 December 2022 – continued**

(3) – continued

| | Xiamen Differ Good Group RMB'000 | Differ China and Xiamen Group RMB'000 | Differ Property Service Group RMB'000 |
|---|---|---|---|
| **Gains (losses) on disposal of subsidiaries:** | | | |
| Consideration received and receivable | 25,000 | 1,021,333 | 1 |
| Net assets (liabilities) disposed of | (14,442) | (1,081,615) | 7,533 |
| Release of translation reserve | – | (35,612) | – |
| Release of financial asset revaluation reserve | – | 19,318 | – |
| Gains (losses) on disposal of subsidiaries | 10,558 | (76,576) | 7,534 |
| **Net cash inflow (outflow) arising on disposal:** | | | |
| Cash consideration | 25,000 | 1,067,769 | – |
| Less: Deferred cash consideration receivable | – | (1,067,769) | (1) |
| Cash and bank balances disposed of | (55) | (1,470) | (946) |
| | 24,945 | (1,470) | (947) |

## 38. ACQUISITION OF SUBSIDIARIES

### (a) For the year ended 31 December 2023

***Re-consolidation of Xiamen Differ Group***

As explained in note 37(b), during the year ended 31 December 2022, the Group disposed of the Sale Shares, Target Shares and the Sale Loan regarding Differ China and Xiamen Group in an aggregate for the Consideration of RMB1,067,769,219 on 23 December 2022.

As described in the Company's announcement dated 13 October 2023, pursuant to the Sale and Purchase Agreement, the Purchaser shall pay the Consideration of RMB1,067,769,219 in the manner as specified in the Sale and Purchase Agreement. However, up to 13 October 2023, only the first instalment of the Share Consideration of RMB50,000,000 has been settled and the Purchaser has not paid the second instalment of the Share Consideration of RMB150,000,000 in accordance with the provisions of the Sale and Purchase Agreement and the amount was still outstanding and lag behind of the payment due date.

The directors are of the view that, in order to rectify the position and for the interest of the Company and the Shareholders of the Company as a whole, on 13 October 2023, the Purchaser and the Group entered into the supplemental deed (the "Supplemental Deed"), pursuant to which both the Purchaser and the Group agreed to offset the outstanding second instalment of Sale Consideration of RMB150,000,000 and partial of the third instalment of RMB160,000,000, together with the default interest in the amount of RMB3,000,000 with an aggregate amount of RMB313,000,000 (the "Xiamen Differ Group Re-consolidation Consideration") by, among others, enforcing the share charges over the shares of Xiamen Differ Group (the "Share Charges"). After the completion of the enforcement of Share Charges, the Purchaser shall cease to own any interest in Xiamen Differ Group.

On 13 October 2023, the Group has enforced the Share Charges and the registration procedures for the transfer of the 100% of the entire equity interests in Xiamen Differ Group was completed on 13 October 2023. The directors are of the view that the Group's control over Xiamen Differ Group was resumed since 13 October 2023 (the "Re-consolidation Date") and the financial statements of Xiamen Differ Group have been consolidated into that of the Group since then.

38. ACQUISITION OF SUBSIDIARIES – continued

(a) For the year ended 31 December 2023 – continued

*Re-consolidation of Xiamen Differ Group – continued*

The remaining Share Consideration for the sale and purchase of the Sale Shares shall continue to be paid by the Purchaser in the following manner:

1. The remaining third instalment of RMB40,000,000 on or before 31 January 2024;

2. The fourth instalment of RMB200,000,000 on or before 31 July 2024; and

3. The fifth instalment of RMB250,000,000 on or before 31 January 2025.

In view of the re-consolidated of the financial statements of Xiamen Differ into that of the Group since the Re-consolidation Date, the Loan Consideration shall be adjusted on dollar from RMB217,769,000 to RMB313,474,000 (the "Revised Loan Consideration") which shall be continued to be paid by the Purchaser on or before 31 January 2026.

The re-consolidation of Xiamen Differ Group has been accounted for as acquisition of business using the acquisition method:

**38. ACQUISITION OF SUBSIDIARIES – continued**

**(a) For the year ended 31 December 2023 – continued**

***Re-consolidation of Xiamen Differ Group – continued***

Following the Group resuming control over Xiamen Differ Group on the Re-consolidation Date, the Group recognised the assets acquired and liabilities recognised at the Re-consolidation Date as followings:

| | Xiamen Differ Group RMB'000 |
|---|---|
| **Consideration transferred:** | |
| Xiamen Differ Group Re-consolidation Consideration (note below) | 313,000 |
| **Assets acquired and liabilities recognised at the date of acquisition:** | |
| Property, plant and equipment | 40 |
| Investment properties | 357,185 |
| Inventories of properties | 199,500 |
| Loan and account receivables | 22 |
| Prepayments, deposits and other receivables | 28,633 |
| Amount due from the Group | 4,216 |
| Cash and bank balances | 920 |
| Account payables | (32,365) |
| Accruals, other payables and deposits received | (30,771) |
| Bank borrowings | (108,900) |
| Lease liabilities | (37,075) |
| Deferred tax liabilities | (68,405) |
| Total identifiable net assets acquired | 313,000 |

## 38. ACQUISITION OF SUBSIDIARIES – continued

### (a) For the year ended 31 December 2023 – continued

***Re-consolidation of Xiamen Differ Group – continued***

| | Xiamen Differ Group RMB'000 |
|---|---|
| **Net cash inflow arising from the acquisition:** | |
| Cash consideration paid | – |
| Less: Cash and bank balances acquired | **920** |
| | **920** |

*Note*: The Xiamen Differ Group Re-consolidation Consideration was a material non-cash transaction for the year ended 31 December 2023.

The fair value of loan and account receivables is approximately RMB22,000. The fair value of other receivables is approximately RMB28,555,000. None of the loan and account receivables or other receivables was expected to be uncollectible at the Re-consolidation Date.

The revenue in the consolidated statement of comprehensive income for the year ended 31 December 2023 contributed by Xiamen Differ Group was approximately RMB28,786,000. The loss in the consolidated statement of comprehensive loss for the year ended 31 December 2023 contributed by Xiamen Differ Group was approximately by RMB33,711,000.

Had Xiamen Differ Group been consolidated from 1 January 2023, the Group's revenue would been of approximately RMB2,268,997,000 and loss for the year would been approximately RMB2,556,116,000. The pro forma information is for illustrative purpose only and is not necessary an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2023, nor it intended to be a projection of future results.

The re-consolidation-related costs of approximately RMB120,000 have been charged to other expenses in the consolidated statement of comprehensive income for the year ended 31 December 2023.

## 38. ACQUISITION OF SUBSIDIARIES – continued

### (b) For the year ended 31 December 2022

(i) During the year ended 31 December 2022, the Group entered into a sale and purchase agreement with Zhongcheng to acquire 100% equity interest in Xiamen Differ Hub Supply Chain Technology Limited and its subsidiaries ("Differ Hub Supply Chain") at consideration of RMB30,000,000. The acquisition was completed on 18 April 2022. The directors believe that the acquisition would enable the Group to broaden and expedite the development of the Group's assets management segment.

(ii) During the year ended 31 December 2022, the Group entered into a sale and purchase agreement with Zhongcheng to acquire 100% equity interest in Xiamen Dingzao Commercial Operation Management Company Limited and Lishui Fu Feng Cultural Tours Company Limited ("Dingzao and Lishui") at consideration of RMB290,000,000. The acquisition consideration was satisfied by offset debt due from Zhongcheng to the Group. The acquisition was completed on 20 July 2022. The principal reason for this acquisition was due to the conflicting views between the Group and Zhongcheng in respect of the commercial positioning and future business development strategies of the Dingzao and Lishui. Further, Zhongcheng did not manage to provide the anticipated resources to the Dingzao and Lishui as originally expected. As such, the parties decided to terminate their cooperation in operating the Dingzao and Lishui, which led to this acquisition.

## 38. ACQUISITION OF SUBSIDIARIES – continued

### (b) For the year ended 31 December 2022 – continued

The above transactions have been accounted for as acquisition of business using the acquisition method:

| | Differ Hub Supply Chain RMB'000 | Dingzao and Lishui RMB'000 |
|---|---|---|
| **Consideration transferred:** | | |
| Cash | 30,000 | – |
| Offset debt due from Zhongcheng to the Group | – | 290,000 |
| | 30,000 | 290,000 |
| **Assets acquired and liabilities recognised at the date of acquisition:** | | |
| Property, plant and equipment | 2 | 1,086 |
| Investment properties | – | 338,097 |
| Inventories of properties | – | 209,198 |
| Loan and account receivables | 27,700 | 17,953 |
| Prepayments, deposits and other receivables | 249,908 | 27,315 |
| Amount due from the Group | 112,987 | 122,314 |
| Cash and bank balances | 85 | 944 |
| Account payables | (57,750) | (35,975) |
| Accruals, other payables and deposits received | (49,922) | (57,140) |
| Contract liabilities | – | (22,183) |
| Bank borrowings | (262,152) | (110,000) |
| Lease liabilities | – | (72,150) |
| Provision for taxation | (17) | (22,552) |
| Deferred tax liabilities | – | (78,041) |
| Total identifiable net assets acquired | 20,841 | 318,866 |

## 38. ACQUISITION OF SUBSIDIARIES – continued

### (b) For the year ended 31 December 2022 – continued

| | Differ Hub Supply Chain RMB'000 | Dingzao and Lishui RMB'000 |
|---|---|---|
| **Goodwill (gain on bargain purchase) arising on acquisition:** | | |
| Consideration transferred | 30,000 | – |
| Offset debt due from Zhongcheng to the Group | – | 290,000 |
| Fair value of net identifiable assets acquired | (20,841) | (318,866) |
| Goodwill (gain on bargain purchase) arising on acquisition | 9,159 | (28,866) |
| **Net cash (outflow) inflow arising from the acquisition:** | | |
| Cash consideration paid | (30,000) | – |
| Less: Cash and bank balances acquired | 85 | 944 |
| | (29,915) | 944 |

The fair value of loan and account receivables is approximately RMB45,653,000. The fair value of other receivables is approximately RMB263,545,000. None of the loan and account receivables or other receivables was expected to be uncollectible at the date of acquisition.

The revenue in the consolidated statement of comprehensive income for the year ended 31 December 2022 contributed by Differ Hub Supply Chain and Dingzao and Lishui were approximately RMB150,049,000 and RMB8,687,000 respectively. The loss in the consolidated statement of comprehensive income for the year ended 31 December 2022 contributed by Differ Hub Supply Chain and Dingzao and Lishui were approximately by RMB11,719,000 and RMB3,085,000 respectively.

**38. ACQUISITION OF SUBSIDIARIES – continued**

**(b) For the year ended 31 December 2022 – continued**

Had Differ Hub Supply Chain and Dingzao and Lishui been consolidated from 1 January 2022, the Group's revenue would been approximately RMB1,331,945,000 and RMB1,019,933,000 respectively and loss for the year would been approximately RMB182,948,000 and RMB176,059,000, respectively. The pro forma information is for illustrative purpose only and is not necessary an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2022, nor it intended to be a projection of future results.

The acquisition-related costs of approximately RMB20,000 and RMB135,000 for Differ Hub Supply Chain and Dingzao and Lishui have been charged to other expenses in the consolidated statement of comprehensive income for the year ended 31 December 2022.

The goodwill recognised will not deductible for tax purpose.

**39. COMMITMENTS**

As at 31 December 2023, the Group had capital commitments, which were contracted but not provided for, in respect of the capital injection to its subsidiaries of RMB1,078,077,000 (2022: RMB1,128,536,000).

As at 31 December 2023, the Group had capital commitments, which were contracted but not provided for, in respect of the capital injection to an associate of RMB195,000,000 (2022: RMB196,000,000).

At the reporting date, the Group had the following capital and other commitments:

| | **2023** | 2022 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| *Contracted, but not provided for:* | | |
| Property development | **261,469** | 181,449 |
| Property, plant and equipment | **–** | 202,157 |
| | **261,469** | 383,606 |

## 40. FINANCIAL INSTRUMENTS BY CATEGORY

Categories of financial instruments as at the reporting date are as follows:

| | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|
| Financial assets | | |
| Other financial assets | | |
| − Financial assets at FVTPL | **347,229** | 471,982 |
| At amortised costs | | |
| − Finance lease, loan and account receivables | **99,747** | 440,788 |
| − Deposits and other receivables | **1,303,792** | 1,974,915 |
| − Restricted bank deposits | **119,757** | 142,623 |
| − Cash and bank balances | **17,790** | 33,889 |
| | **1,888,315** | 3,064,197 |
| Financial liabilities | | |
| At amortised costs | | |
| − Account payables | **451,901** | 395,779 |
| − Accruals, other payables and deposits received | **892,588** | 811,276 |
| − Bank and other borrowings | **1,562,030** | 647,510 |
| − Corporate bonds | **669,447** | 796,609 |
| Lease liabilities | **31,176** | 11,310 |
| Financial guarantees | **98,516** | 138,882 |
| | **3,705,658** | 2,801,366 |

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include finance lease, loan and account receivables (including account receivables, finance lease receivables, receivables from guarantee customers and loan receivables), deposits and other receivables (including other receivables, consideration receivables and amount due from an associate), restricted bank deposits, cash and bank balances, account payables, accruals, other payables and deposits received, bank and other borrowings, corporate bonds, lease liabilities and financial guarantee. Details of the financial instruments are disclosed in respective notes. These financial instruments mainly arise from its operations and financing activities. The Group has not used any derivatives and other instruments for hedging purposes.

In the opinion of directors, the carrying amounts of the Group's financial instruments approximated their fair values as at the end of each reporting period. Fair value estimates are made at a specific point in time and are based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group's distressed assets also have valuation risk and legal title risk.

The board of the directors of the Company reviews and agrees policies for managing each of these risks to ensure appropriate measures are implemented in a timely and effective manner and details of which are summarised below.

### (i) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Group's restricted bank deposits, bank balances and bank and other borrowings were bearing floating interest rate or fixed rate. Exposure to floating interest rate exists when there are unexpected adverse interest rate movements. The Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no undue exposures to significant interest rate movements and rates are approximately fixed when necessary.

The interest rates of the above interest-bearing financial assets and financial liabilities of the Group are disclosed in notes are disclosed in respective notes. The following table illustrates the sensitivity of increase/decrease in the Group's profit after income tax for the year to a reasonably possible change in interest rates of 0.5%, with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Group's floating rate financial instruments held at the reporting date. All other variables are held constant. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

### (i) Interest rate risk – continued

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | +0.5% | −0.5% | +0.5% | −0.5% |
| Increase (decrease) in profit after income tax for the year | 4,135 | (4,135) | 901 | (901) |

In the opinion of the directors, the sensitivity analysis is unrepresentative of the interest rate risk as the year end exposures at the end of the reporting period does not reflect the exposure during the year.

### (ii) Credit risk

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 is primarily attributable to its financial assets measured at amortised cost and financial guarantee contracts. The Group's requires the review of individual outstanding amount regularly depending on individual circumstance or market condition.

The Group's impairment requirements are based on an ECL model. The Group measures ECL on financial assets measured at amortised cost, including finance lease, loan and account receivables (including account receivables, finance lease receivables, receivables from guarantee customers and loan receivables), prepayment, deposits and other receivables (including other receivables, consideration receivables and amount due from an associate), restricted bank deposits, cash and bank balances through the following three stages based on the change in risk since initial recognition:

| Category | Basis for recognising ECL | Description |
|---|---|---|
| Stage 1 | 12-month ECL | The counterparty has a low risk of default and a strong capacity to meet contractual cash flows |
| Stage 2 | Life time ECL – not credit-impaired | Receivables are 30 days past due or there has been a significant increase in credit risk since initial recognition. |
| Stage 3 | Lifetime ECL – credit-impaired | Receivables are 90 days past due or there is evidence indicating the assets is credit-impaired. |

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

### (ii) Credit risk – continued

It is the Group's policy that all customers who wish to obtain loans from the Group are subject to management review. Receivable balances are monitored on an ongoing basis. The Group holds collaterals directly or indirectly to cover its risks associated with the receivables.

All collaterals of finance lease, loan and account receivables and consideration receivables were held directly by the Group, except for a distressed asset, collateral is held by the non-performing debts' original creditors. Based on the arrangements of the Group and the banks, the banks may apply to the court for enforcement of the loan agreements and sale of the collaterals.

At the reporting date, the Group's exposure under outstanding finance lease receivables were secured by the collaterals and deposits received from finance lease customers as disclosed in respective notes.

The Group also has investments in distressed assets classified as other financial assets measured at FVOCI which contain certain elements of credit risk. Depending on the status of the obligor of distressed asset, the Group may decide to pursue repayment from the obligor instead of disposing it to third party, credit risk arises in such situation. To minimise the credit risk of distressed assets, the Group selects counterparties with appropriate creditworthiness and repayment capacity. At the reporting date, the Group's disposed all of its fund investment and details of which are set out note 20.

The credit risk of the Group's remaining financial assets, which mainly comprise restricted bank deposits and bank balances, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. Credit risk in restricted bank deposits and bank balances is mitigated as cash is deposited in banks with high credit rating.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

### (ii) Credit risk – continued

Except for the financial guarantees given by the Group as set out in note 30, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 30.

All customers who wish to obtain financial guarantees from the Group are also subject to management review. The Group has entered into financial guarantee contracts in which it has guaranteed the bank the repayment of loan by customers of the Group. The Group has the obligation to compensate the bank for the loss it would suffer because the customers fail to repay. The Group's maximum exposure under the financial guarantee contracts is disclosed in "liquidity risk" below. To mitigate such risk, the Group requests the customers to provide collateral as appropriate. In the event of default or failure to repay any outstanding guarantee amounts by the customers, the Group will proceed with sale of collateral. In order to maintain the credit risk at desirable levels, the Group's average loan-to-value ratio was kept at a level that could ensure the recoverability of the outstanding guarantee amount.

***Impairment assessment of finance lease, loan and account receivables, amount due from an associate, other receivables, consideration receivables and financial guarantee liabilities recognised***

Information about the Group's exposure to credit risk and ECL for finance lease, loan and account receivables, consideration receivables, amount due from an associate, other receivables and financial guarantees at the end of the reporting period. The expected loss rates are derived from the gross carrying amount and loss allowance at the end of the reporting period after taken into accounting of the collaterals, historical default rate and forward looking information when determined the loss allowance.

The changes of the ECL rate is mainly taken the following factors into account when assessing whether credit risk has increased significantly subsequently:

- an actual or expected significant deterioration in the macro-economic environment;
- 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; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued**

**(ii) Credit risk – continued**

***Impairment assessment of finance lease, loan and account receivables, amount due from an associate, other receivables, consideration receivables and financial guarantee liabilities recognised – continued***

*As of and for the year ended 31 December 2022*

The following table provides information about the Group's exposure to credit risk and ECL for finance lease, loan and account receivables, amount due from an associate, other receivables, consideration receivables and financial guarantees issued and recognised as at 31 December 2022.

| | Average expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
|---|---|---|---|
| **At 31 December 2022** | | | |
| Account receivables | 3.7 | 105,516 | 3,852 |
| Finance lease receivable | 5.5 | 86,945 | 4,778 |
| Receivables from guarantee customers | 63.4 | 29,661 | 18,797 |
| Loan receivable | 2.0 | 251,106 | 5,013 |
| | | 473,228 | 32,440 |
| Amount due from an associate | 2.3 | 588,683 | 13,250 |
| Other receivables | 0.1 | 76,187 | 28 |
| Consideration receivable | 1.1 | 1,262,692 | 13,675 |
| | | 1,927,562 | 26,953 |
| Financial guarantees | 6.5 | 2,149,878 | 138,882 |
| | | | 198,275 |

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued**

**(ii) Credit risk – continued**

***Impairment assessment of finance lease, loan and account receivables, amount due from an associate, other receivables, consideration receivables and financial guarantee liabilities recognised – continued***

*As of and for the year ended 31 December 2022 – continued*

The average expected loss rate is derived from the gross carrying amount and loss allowance as at 31 December 2022 after taken into accounting of the collaterals, historical default rate and forward-looking information when determined the loss allowance.

As at 31 December 2022, except for the balances of approximately RMB728,000 of interest receivables were considered as a significant increase in credit risk since initial recognition but not credit-impaired and the loss allowance of which is measured at lifetime ECL and the balances of approximately RMB26,978,000 of finance lease, loan and account receivables were considered as a significant increase in credit risk since initial recognition and credit-impaired and the loss allowance of which is measured at lifetime ECL, the loss allowance for all other financial instruments are measured at an amount equal to 12-month ECL.

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued**

**(ii) Credit risk – continued**

***Impairment assessment of finance lease, loan and account receivables, amount due from an associate, other receivables, consideration receivables and financial guarantee liabilities recognised – continued***

*As of and for the year ended 31 December 2023*

The following table provides information about the Group's exposure to credit risk and ECL for finance lease, loan and account receivables, amount due from an associate, other receivables, consideration receivables and financial guarantees issued and recognised as at 31 December 2023.

| | *Notes* | **Category** | **Average expected loss rate** % | **Gross carrying amount** RMB'000 | **Loss allowance** RMB'000 |
|---|---|---|---|---|---|
| **As at 31 December 2023** | | | | | |
| Account receivables | (a) | 12-month ECL | 8.8 | 95,611 | (8,451) |
| | | Lifetime ECL (not credit-impaired) | N/A | – | – |
| | (a) and (b) | Lifetime ECL (credited-impaired) | 100.0 | 142,550 | (142,550) |
| | | | | 238,161 | (151,001) |
| Finance lease receivables | | 12-month ECL | N/A | – | – |
| | | Lifetime ECL (not credit-impaired) | N/A | – | – |
| | (a) and (b) | Lifetime ECL (credited-impaired) | 86.3 | 91,556 | (78,969) |
| | | | | 91,556 | (78,969) |
| Receivables from guarantee customers | | 12-month ECL | N/A | – | – |
| | | Lifetime ECL (not credit-impaired) | N/A | – | – |
| | (a) and (b) | Lifetime ECL (credited-impaired) | 100.0 | 29,450 | (29,450) |
| | | | | 29,450 | (29,450) |
| Loan receivables | | 12-month ECL | N/A | – | – |
| | | Lifetime ECL (not credit-impaired) | N/A | – | – |
| | (a) and (b) | Lifetime ECL (credited-impaired) | 100.0 | 650,455 | (650,455) |
| | | | | 650,455 | (650,455) |

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued**

**(ii) Credit risk – continued**

***Impairment assessment of finance lease, loan and account receivables, amount due from an associate, other receivables, consideration receivables and financial guarantee liabilities recognised – continued***

*As of and for the year ended 31 December 2023 – continued*

| | *Notes* | **Category** | **Average expected loss rate** % | **Gross carrying amount** RMB'000 | **Loss allowance** RMB'000 |
|---|---|---|---|---|---|
| Amount due from an associate | | 12-month ECL | N/A | – | – |
| | (a) | Lifetime ECL (not credit-impaired) | 21.5 | 822,429 | (176,535) |
| | | Lifetime ECL (credited-impaired) | N/A | – | – |
| | | | | 822,429 | (176,535) |
| Other receivables | (a) | 12-month ECL | 8.8 | 68,237 | (6,033) |
| | | Lifetime ECL (not credit-impaired) | N/A | – | – |
| | (a) and (b) | Lifetime ECL (credited-impaired) | 100.0 | 178,978 | (178,976) |
| | | | | 247,215 | (185,009) |
| Consideration receivables | | 12-month ECL | N/A | – | – |
| | | Lifetime ECL (not credit-impaired) | N/A | – | – |
| | (a) and (b) | Lifetime ECL (credited-impaired) | 100.0 | 862,283 | (862,283) |
| | | | | 862,283 | (862,283) |
| Financial guarantees | | 12-month ECL | N/A | – | – |
| | | Lifetime ECL (not credit-impaired) | N/A | – | – |
| | (a) and (c) | Lifetime ECL (credited-impaired) | 8.0 | 1,229,390 | (98,516) |
| | | | | 1,229,390 | (98,516) |
| | | | | | (2,232,218) |

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

### (ii) Credit risk – continued

***Impairment assessment of finance lease, loan and account receivables, amount due from an associate, other receivables, consideration receivables and financial guarantee liabilities recognised – continued***

*As of and for the year ended 31 December 2023 – continued*

*Notes:*

(a) The expected loss rates are derived from the gross carrying amounts and loss allowances as at 31 December 2023 after taken into accounting of the collaterals, historical default rate and forward-looking information when determined the loss allowances in accordance with the Company's accounting policy and basis described above.

(b) Despite the exerted efforts of the directors of the Company to request the customers, borrowers and counterparties in settling the outstanding balances due to them on time, however, up to the date of the approval for issuance of the consolidated financial statements, these customers, borrowers and counterparties did not settle their outstanding balances in accordance with the terms of the relevant contracts and agreements. The directors of the Company have taken certain alternatives to recover the receivables from these customers, borrowers and counterparties, such as to take legal actions against them. In the circumstance of default in settlement, the directors of the Company considered that there is evidence indicating that such outstanding balances amounted to approximately RMB1,955,272,000 are credit-impaired. Taking into account the holding of collaterals, the deposits received from financial lease customers and the low possibility to recover the receivables from these customers, borrowers and counterparties, the Group recognised full impairment of such outstanding balances with them amounted to approximately RMB1,898,504,000 which was charged to profit or loss for the year ended 31 December 2023.

(c) The details of the provision of financial guarantee recognised are set out in note 30.

The directors of the Company consider that the information used in its impairment assessment represented the best available estimates from the information available.

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued**

**(ii) Credit risk – continued**

***Impairment assessment of finance lease, loan and account receivables, amount due from an associate, other receivables, consideration receivables and financial guarantee liabilities recognised – continued***

Movement in the loss allowance account in respect of finance lease, loan and account receivables, amount due from an associate, other receivables and financial guarantees during the years ended 31 December 2023 and 31 December 2022 are as follows:

| | 12-month ECL<br>RMB'000 | Lifetime ECL (not credit-impaired)<br>RMB'000 | Lifetime ECL (credited-impaired)<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| **At 1 January 2022** | 42,081 | 2,910 | 21,406 | 66,397 |
| Impairment losses recognised | | | | |
| – Finance lease, loan and account receivables | 2,541 | 25 | 54,270 | 56,836 |
| – Other receivables | 6,200 | – | – | 6,200 |
| – Amount due from an associate | 13,099 | – | – | 13,099 |
| – Consideration receivables | 13,423 | – | – | 13,423 |
| – Financial guarantees | – | – | 138,068 | 138,068 |
| Reversal of impairment loss | | | | |
| – Finance lease, loan and account receivables | (4,792) | (136) | – | (4,928) |
| – Other receivables | (520) | – | – | (520) |
| – Consideration receivables | (2,730) | – | – | (2,730) |
| – Financial guarantees | (23,032) | – | – | (23,032) |
| Transfer to lifetime ECL (credited-impaired) | (1,946) | – | 1,946 | – |
| Disposal of subsidiaries | (14,840) | – | (46,260) | (61,100) |
| Written off | – | – | (3,438) | (3,438) |
| **At 31 December 2022 and 1 January 2023** | **29,484** | **2,799** | **165,992** | **198,275** |
| Impairment losses recognised | | | | |
| – Finance lease, loan and account receivables | **8,451** | **–** | **870,566** | **879,017** |
| – Other receivables | **6,033** | **–** | **178,949** | **184,982** |
| – Amount due from an associate | **–** | **163,285** | **–** | **163,285** |
| – Consideration receivables | **–** | **–** | **848,607** | **848,607** |
| Reversal of impairment loss | | | | |
| – Finance lease, loan and account receivables | **(42)** | **(239)** | **(1,301)** | **(1,582)** |
| – Financial guarantees | **–** | **–** | **(42,691)** | **(42,691)** |
| Transfer to lifetime ECL (credited-impaired) | **(16,191)** | **(2,560)** | **18,751** | **–** |
| Transfer to lifetime ECL (not credited-impaired) | **(13,250)** | **13,250** | **–** | **–** |
| Effect of foreign exchange rate, net | **–** | **–** | **2,325** | **2,325** |
| **At 31 December 2023** | **14,485** | **176,535** | **2,041,198** | **2,232,218** |

41. **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued**

(ii) **Credit risk – continued**

***Impairment assessment of finance lease, loan and account receivables, amount due from an associate, other receivables, consideration receivables and financial guarantee liabilities recognised – continued***

The origination of new finance lease, loan and account receivables, amount due from an associate, other receivables and financial guarantees net of those settled resulted in an increase in loss allowance of approximately RMB2,031,618,000 during the year ended 31 December 2023 (2022: RMB196,416,000).

(iii) **Liquidity risk**

Management of the Group monitors current and expected liquidity requirements to ensure that the Group maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity profile of the Group's financial liabilities at the reporting date, based on the contractual undiscounted payments, is as follows:

| | Carrying amount RMB'000 | Total contractual undiscounted cash flow RMB'000 | Within one year or on demand RMB'000 | More than one year but less than two years RMB'000 | More than two years but less than five years RMB'000 | More than five years RMB'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2022** | | | | | | |
| Account payables | 395,779 | 395,779 | 395,779 | – | – | – |
| Accruals, other payables and deposits received | 811,276 | 811,276 | 688,350 | 116,426 | 6,500 | – |
| Bank and other borrowings | 647,510 | 701,656 | 701,656 | – | – | – |
| Corporate bonds | 796,609 | 846,978 | 689,224 | 55,736 | 102,018 | – |
| Lease liabilities | 11,310 | 11,869 | 8,971 | 2,898 | – | – |
| | 2,662,484 | 2,767,558 | 2,483,980 | 175,060 | 108,518 | – |
| **Financial guarantees issued (note below)** | | | | | | |
| – Maximum amount guaranteed | – | 2,149,878 | 2,149,878 | – | – | – |
| **At 31 December 2023** | | | | | | |
| Accounts payables | **451,901** | **451,901** | **451,901** | **–** | **–** | **–** |
| Accruals, other payables and deposits received | **892,588** | **892,588** | **675,258** | **217,330** | **–** | **–** |
| Bank and other borrowings | **1,581,530** | **1,691,979** | **1,671,045** | **1,103** | **19,831** | **–** |
| Corporate bonds | **669,447** | **717,485** | **668,923** | **28,822** | **19,740** | **–** |
| Lease liabilities | **31,176** | **36,107** | **19,960** | **5,127** | **7,288** | **3,732** |
| | **3,626,642** | **3,790,060** | **3,487,087** | **252,382** | **46,859** | **3,732** |
| **Financial guarantees issued (note below)** | | | | | | |
| – Maximum amount guaranteed | **–** | **1,229,390** | **1,229,390** | **–** | **–** | **–** |

**41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued**

**(iii) Liquidity risk – continued**

*Note:* Details of the Group's financial guarantees to banks for banking facilities granted to certain customers of the Group and the financial guarantee liabilities recognised are set out in note 30(a).

As explained in notes 31 and 32, as at 31 December 2023, in view of the default payment and cross-default of the Group's bank and other borrowings and corporate bonds and thus, certain borrowings was presented as current liabilities at the end of the reporting period.

**(iv) Valuation risk**

The Group's distressed assets classified as financial assets measured at FVTPL and FVOCI are subject to valuation risk, which is the risk of negative impact arising from the difference between actual results and value estimations that the Group would use in its management of distressed assets. Differences arise from variance in factors such as future cash flows, collection period, discount rate, and disposal cost, and the Group adopted conservative approach to estimate these factors so as to minimize the difference between actual results and value estimations.

**(v) Legal title risk**

The Group's distressed assets are subject to legal title risk, which is the risk of loss, arising from the decrease of recoverable amount when the legal rights to claim was partially or entirely lost due to inappropriate daily management of distressed assets such as expiry of claim period without taking proper legal actions on time. To minimize the legal title risk, the Group closely monitors the related legal processes and regularly communicates with the debtors, lawyers and other contract parties.

**(vi) Capital management**

The Group's capital management objectives include:

(1) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for owners and benefits for other stakeholders;

(2) to support the Group's stability and growth; and

(3) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder's returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The capital structure of the Group consists of net debts, which include the bank and other borrowings, corporate bonds and net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital and various reserves.

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

### (vi) Capital management – continued

The directors review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated the share capital. The Group will balance its overall capital structure through new share issues as well as the issue of new debts or the redemption of existing debts.

The net debts-to-equity ratios at 31 December 2023 and 31 December 2022 were as follows:

| | **2023** **RMB'000** | 2022 RMB'000 |
|---|---|---|
| Bank and other borrowings | **1,581,530** | 647,510 |
| Corporate bonds | **669,447** | 796,609 |
| | **2,250,977** | 1,444,119 |
| Less: Cash and bank balances – general accounts | **(17,790)** | (26,244) |
| Net debts | **2,233,187** | 1,417,875 |
| Equity attributable to the owners of the Company | **167,167** | 2,525,024 |
| Net debts to equity ratio | **1,335.9%** | 56.2% |

## 41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

### (vii) Fair value estimation

The Group analyses financial instruments and non-financial instruments carried at fair value, by level of the inputs to valuation techniques used to measure fair value.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers among levels 1, 2 and 3 during the year.

The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

See notes 16 and 20 for disclosures of the investment properties and other financial assets that are measured at fair value.

Saved as disclosed above, the directors of the Company consider that the carrying amounts of the Group's financial assets and financial liabilities at amortised cost recognised in the consolidated financial statements approximates their fair values at the end of each reporting period.

## 42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

| | Lease Liabilities RMB'000 *(note 29)* | Bank and other borrowings RMB'000 *(note 31)* | Corporate bonds RMB'000 *(note 32)* | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2022 | 19,363 | 717,832 | 343,358 | 1,080,553 |
| Changes from financing cash flow: | | | | |
| Proceeds from bank and other borrowings | – | 156,407 | – | 156,407 |
| Proceeds from issue of corporate bonds | – | – | 620,806 | 620,806 |
| Repayments of bank and other borrowings | – | (292,721) | – | (292,721) |
| Repayments of corporate bonds | – | – | (179,673) | (179,673) |
| Repayments of lease liabilities | (22,145) | – | – | (22,145) |
| Interest paid | – | (52,038) | (12,183) | (64,221) |
| Total changes from financing cash flows | (22,145) | (188,352) | 428,950 | 218,453 |
| Other changes: | | | | |
| Acquisition of subsidiaries | 72,150 | 372,152 | – | 444,302 |
| Disposal of subsidiaries | (60,106) | (318,842) | – | (378,948) |
| Capitalised borrowing costs | – | 20,201 | 9,015 | 29,216 |
| Interests expenses | 1,217 | 51,777 | 20,588 | 73,582 |
| Interest accrued | (627) | (19,940) | (17,420) | (37,987) |
| New leases | 1,036 | – | – | 1,036 |
| Effect of foreign exchange rate, net | 422 | 12,682 | 12,118 | 25,222 |
| At 31 December 2022 | 11,310 | 647,510 | 796,609 | 1,455,429 |

## 42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES – continued

| | Lease Liabilities RMB'000 *(note 29)* | Bank and other borrowings RMB'000 *(note 31)* | Corporate bonds RMB'000 *(note 32)* | Total RMB'000 |
|---|---|---|---|---|
| **At 1 January 2023** | 11,310 | 647,510 | 796,609 | 1,455,429 |
| Changes from financing cash flow: | | | | |
| Proceeds from bank and other borrowings | – | 913,769 | – | 913,769 |
| Proceeds from issue of corporate bonds | – | – | 138,781 | 138,781 |
| Repayments of bank and other borrowings | – | (94,873) | – | (94,873) |
| Repayments of corporate bonds | – | – | (284,048) | (284,048) |
| Repayments of lease liabilities | (19,073) | – | – | (19,073) |
| Interest paid | – | (57,042) | (11,871) | (68,913) |
| Total changes from financing cash flows | (19,073) | 761,854 | (157,138) | 585,643 |
| Other changes: | | | | |
| Acquisition of subsidiaries | 37,075 | 108,900 | – | 145,975 |
| Capitalised borrowing costs | – | 11,149 | – | 11,149 |
| Interest expenses | 1,465 | 89,676 | 38,431 | 129,572 |
| Interests accrued | – | (43,783) | (26,560) | (70,343) |
| Effect of foreign exchange rate, net | 399 | 6,224 | 18,105 | 24,728 |
| **At 31 December 2023** | 31,176 | 1,581,530 | 669,447 | 2,282,153 |

## 43. STATEMENT OF FINANCIAL POSITION OF HOLDING COMPANY

| | Notes | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| Non-current assets | | | |
| Property, plant and equipment | | **2,669** | 8,872 |
| Interests in subsidiaries | 44 | **155,002** | 1,263,828 |
| Deposits | | **2,274** | 2,224 |
| | | **159,945** | 1,274,924 |
| Current assets | | | |
| Prepayments | | **–** | 88 |
| Amounts due from subsidiaries | | **119,166** | 1,194,999 |
| Other financial assets | | **–** | 92,164 |
| Cash and bank balances | | **–** | 4,475 |
| Restricted bank deposits | | **105** | – |
| | | **119,271** | 1,291,726 |
| Current liabilities | | | |
| Accruals and other payables | | **66,091** | 53,317 |
| Amounts due to subsidiaries | | **5** | 5 |
| Lease liabilities | | **2,907** | 6,462 |
| Financial guarantees | | **98,516** | 138,068 |
| Other borrowings | | **311,863** | 273,851 |
| Corporate bonds | | **669,447** | 653,961 |
| | | **1,148,829** | 1,125,664 |
| Net current (liabilities) assets | | **(1,029,558)** | 166,062 |

## 43. STATEMENT OF FINANCIAL POSITION OF HOLDING COMPANY – continued

| | Notes | 2023 RMB'000 | 2022 RMB'000 |
|---|---|---|---|
| Total assets less current liabilities | | **(869,613)** | 1,440,986 |
| Non-current liabilities | | | |
| Lease liabilities | | – | 2,843 |
| Corporate bonds | | – | 142,648 |
| | | – | 145,491 |
| Net (liabilities) assets | | **(869,613)** | 1,295,495 |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 34 | **18,741** | 14,734 |
| Reserves | | **(888,354)** | 1,280,761 |
| Total (deficit) equity | | **(869,613)** | 1,295,495 |

## 43. STATEMENT OF FINANCIAL POSITION OF HOLDING COMPANY – continued

The movements of the Company's reserves for the years ended 31 December 2023 and 31 December 2022 are as followings:

| | Share premium RMB'000 | Contributed surplus RMB'000 (Note below) | Translation reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 1 January 2022** | 1,619,971 | 355,920 | 9,780 | (476,833) | 1,508,838 |
| Loss for the year | – | – | – | (205,528) | (205,528) |
| Other comprehensive income for the year | – | – | 8,087 | – | 8,087 |
| Total comprehensive income for the year | – | – | 8,087 | (205,528) | (197,441) |
| Final dividend paid | (30,636) | – | – | – | (30,636) |
| At 31 December 2022 and 1 January 2023 | **1,589,335** | **355,920** | **17,867** | **(682,361)** | **1,280,761** |
| Loss for the year | **–** | **–** | **–** | **(2,416,237)** | **(2,416,237)** |
| Other comprehensive income for the year | **–** | **–** | **61,404** | **–** | **61,404** |
| Total comprehensive income for the year | **–** | **–** | **61,404** | **(2,416,237)** | **(2,354,833)** |
| Share subscription under placing agreement | **185,718** | **–** | **–** | **–** | **185,718** |
| At 31 December 2023 | **1,775,053** | **355,920** | **79,271** | **(3,098,598)** | **(888,354)** |

*Note:* Contributed surplus of the Company represented the difference between the net asset values of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange thereof pursuant to the Reorganisation.

## 44. INTERESTS IN SUBSIDIARIES

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

| Name | Place of incorporation/ establishment | Particulars of issued and fully paid up share capital/registered capital | Attributable equity interest Directly | Attributable equity interest Indirectly | Principal activities and place of operation |
|---|---|---|---|---|---|
| Differ Good Asset Development Company Limited (鼎戈資產發展有限公司) | British Virgin Islands ("BVI") | 100 ordinary shares of US$1 each | 100% | – | Investment holding, Hong Kong ("HK") |
| Cherries Automobile Company Limited (車厘籽汽車有限公司) | BVI | 101 ordinary shares of US$1 each | 100% | – | Investment holding, HK |
| Differ Financial Services Company Limited | BVI | 100 ordinary shares of US$1 each | 100% | – | Investment holding, HK |
| Differ Construction Company Limited (鼎造有限公司) | BVI | 1 ordinary share of US$1 | 100% | – | Investment holding, HK |
| Differ Construction and City Development Company Limited (鼎造城開有限公司) | BVI | 100 ordinary shares of US$1 each | – | 100% | Investment holding, HK |
| Differ Hub Company Limited (鼎奐有限公司) | BVI | 100 ordinary shares of US$1 each | 100% | – | Investment holding, HK |
| Differ Yield Company Limited (鼎繹有限公司) | BVI | 100 ordinary shares of US$1 each | – | 100% | Investment holding, HK |
| Fast Sunrise Limited | BVI | 50,000 ordinary shares of US$1 each | – | 100% | Investment holding, HK |
| Differ Construction and City Development Company Limited (鼎造城市開發有限公司) | Cayman Islands | 100 ordinary shares of HK$0.01 each | – | 100% | Investment holding, HK |
| Differ Good Asset Group Company Limited (鼎戈資產集團有限公司) | HK | 1,000 ordinary shares of HK$1.00 each | – | 100% | Investment holding, HK |
| Cherries Group Company Limited (車厘籽集團有限公司) | HK | HK$156,000,000 | – | 100% | Investment holding, HK |
| Differ Asia Pacific Financial Company Limited (鼎豐亞太金融有限公司) | HK | 1,000 ordinary shares of HK$1.00 each | – | 100% | Provision of financing services, HK |
| Differ Financial and Securities Limited (鼎豐金融證券有限公司) | HK | HK$15,176,000 | – | 100% | Provision of financing services, HK |
| Differ Asset Management Company Limited | HK | HK$2,500,000 | – | 100% | Provision of financial services, HK |
| Differ Construction and Development Group Company Limited (鼎造城開集團有限公司) | HK | 1,000 ordinary shares of HK$1.00 each | – | 100% | Investment holding, HK |
| Prize Focus Limited (獎源有限公司) | HK | 10,000 ordinary shares of HK$1.00 each | – | 100% | Investment holding, HK |
| Differ Yield Property Group Company Limited (鼎繹置業集團有限公司) | HK | 1,000 ordinary shares of HK$1.00 each | – | 100% | Investment holding, HK |
| Cherries (Xiamen) Quality Company Limited^ ("Cherries Quality") (車厘籽(廈門)擔保有限公司)(ii) | PRC | Registered capital of RMB100,000,000 | – | 100% | Provision of guarantee services, PRC |
| Xiamen Differ Good Capital Investment Company Limited^ (廈門市鼎戈股權投資有限公司)(i) | PRC | Registered capital of HK$500,000,000 | – | 100% | Investment holding, PRC |
| Ganzhou Wen Ding Asset Management Company Limited^ (贛州市問鼎資產管理有限公司)(ii) | PRC | Registered capital of RMB500,000,000 | – | 100% | Provision of assets management services, PRC |

## 44. INTERESTS IN SUBSIDIARIES – continued

| Name | Place of incorporation/ establishment | Particulars of issued and fully paid up share capital/registered capital | Attributable equity interest Directly | Attributable equity interest Indirectly | Principal activities and place of operation |
|---|---|---|---|---|---|
| Xiamen Differ Good Asset Management Company Limited^ (廈門市鼎戈資產管理有限公司)(ii) | PRC | Registered capital of RMB500,000,000 | – | 100% | Provision of assets management services, PRC |
| Cherries (Xiamen) Finance Lease Limited^ (車厘籽(廈門)融資租賃有限公司)(i) | PRC | Registered capital of US$35,000,000 | – | 100% | Provision of finance lease services, PRC |
| Tianjin Cherries Vehicle Technology Limited^ ("Cherries Vehicle") (天津車厘籽汽車科技有限公司)(i) and (iii) | PRC | Registered capital of HK$10,000,000 | – | 100% | Investment holding, PRC |
| Tianjin Free Trade Gancheng Taifeng Technology Limited^ ("Gancheng Taifeng") (天津自貿乾程泰鋒科技有限公司) (ii) and (iii) | PRC | Registered capital of RMB50,000,000 | – | 100% | Provision of automobile e-commerce business, PRC |
| Xiamen Differ Yield Cultural Tourism Group Company Limited^ (廈門鼎繹文化旅遊集團有限公司)(ii) | PRC | Registered capital of RMB300,000,000 | – | 100% | Investment holding, PRC |
| Jingning Differ Property Company Limited^ (景寧鼎豐置業有限公司)(ii) | PRC | Registered capital of RMB1,000,000 | – | 100% | Property development, PRC |
| Xiamen Differ Zone Business Consulting Company Limited^ (廈門市鼎造商務諮詢有限公司)(ii) | PRC | Registered capital of RMB1,000,000 | – | 100% | Investment holding, PRC |
| Jingning Tourism Investment Development Limited^ (景寧外舍古鎮旅遊投資發展有限公司)(ii) | PRC | Registered capital of RMB100,001,300 | – | 100% | Property development, PRC |
| Nanan Differ Property Company Limited^ (南安鼎豐置業有限公司)(ii) | PRC | Registered capital of RMB1,000,000 | – | 100% | Property development, PRC |
| Weihai Zhongtian^ (威海中天房地產有限公司)(ii) | PRC | Registered capital of RMB50,000,000 | – | 100% | Property development, PRC |
| Longquan Differ Zone Cultural Tourism Company Limited^ (龍泉市鼎造文化旅遊有限公司)(ii) | PRC | Registered capital of RMB100,000,000 | – | 100% | Investment holding, PRC |
| Longquan Differ Hotel Company Limited^ (龍泉鼎豐酒店有限公司)(ii) | PRC | Registered capital of RMB100,000,000 | – | 100% | Provision of hotel and tourism services and property development and investment, PRC |
| Xiamen Differ Zone City Development Group Company Limited^ (廈門鼎造城市開發集團有限公司)(i) | PRC | Registered capital of RMB500,000,000 | – | 100% | Provision of express loan services and trading of commodities, PRC |
| 乾程泰億(廈門)汽車科技有限公司#(ii) | PRC | Registered capital of RMB100,000,000 | – | 100% | Dormant, PRC |

## 44. INTERESTS IN SUBSIDIARIES – continued

| Name | Place of incorporation/ establishment | Particulars of issued and fully paid up share capital/registered capital | Attributable equity interest Directly | Attributable equity interest Indirectly | Principal activities and place of operation |
|---|---|---|---|---|---|
| 贛州車厘籽網路科技有限公司#(ii) | PRC | Registered capital of RMB5,000,000 | – | 100% | Provision of software development service, PRC |
| Fujian Cherries Fuka Technology & Smart Mall Company Limited^ ("Cherries Fuka") (福建車厘籽福卡智慧賣場科技有限公司)#(ii) | PRC | Registered capital of RMB20,000,000 | – | 80% | Trading of good, PRC |
| Ganzhou Differ Yield Estate Company Limited^ (贛州鼎繹置業有限公司)(i) | PRC | Registered capital of RMB100,000,000 | – | 100% | Investment holding, PRC |
| Jinan Differ Zone Business Consulting Company Limited^ (濟南鼎造商務諮詢管理有限公司)(ii) | PRC | Registered capital of RMB100,000,000 | – | 100% | Dormant, PRC |

^ The English names are for identification only

# These companies are newly incorporated by the Group this year

(i) Registered as wholly-foreign owned enterprises under the PRC law

(ii) Registered as a limited liability company under the PRC law

(iii) Although the Company does not directly or indirectly hold any of the registered capital of Gancheng Taifeng, the Structured Agreements entered into by the subsidiary of the Company, Cherries Vehicle, Gancheng Taifeng and Gancheng Taifeng's registered shareholders altogether enable the Company to exercise control over Gancheng Taifeng. The Structured Agreements, taken as a whole, permit the financial results of Gancheng Taifeng and economic benefits of its business to flow to Cherries Vehicle. In addition, all the directors and top management in Gancheng Taifeng should be assigned by Cherries Vehicle. Through the Structured Agreements, Cherries Vehicle is able to control Gancheng Taifeng so that Gancheng Taifeng is regarded as a subsidiary of the Group.

### Non-controlling interests ("NCI")

As at 31 December 2023 and 31 December 2022, there has no subsidiaries of the Group which has material non-controlling interests.

## 45. RELATED PARTY DISCLOSURES

### (a) Compensation of key management personnel

Key management includes members of the board of directors and other members of key management of the Group. The compensation paid or payable to key management personnel is shown below:

| | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|
| Short-term employee benefits | 4,896 | 5,124 |
| Pension scheme contributions | 103 | 114 |
| | 4,999 | 5,238 |

### (b) Related parties transactions and balances

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material transactions with related parties during the year end 31 December 2023 and 31 December 2022:

| Company name | Relationship | Type of transaction (note (ii) below) | 2023<br>RMB'000 | 2022<br>RMB'000 |
|---|---|---|---|---|
| Xiamen Ding Huan Supply Chain Technology Company Limited | Associate | Guarantee service income | – | 397 |
| | | Cost of trading of commodities | – | 22,183 |
| Lishui | Associate | Guarantee service income | – | 1,622 |
| Quanzhou Ding Huan Supply Chain Management Company Limited | Associate | Guarantee service income | – | 2,334 |

## 45. RELATED PARTY DISCLOSURES – continued

### (b) Related parties transactions and balances – continued

| Company name | Relationship | Type of transaction | **2023 RMB'000** | 2022 RMB'000 |
|---|---|---|---|---|
| Zhongcheng City Development (Lishui) Supply Chain Company Limited | Associate | Income from sales of properties | **–** | 23,103 |
| | | Costs of automobile e-commerce business | **–** | 24,831 |
| Zhongcheng City Development (Bazhong) Supply Chain Company Limited ("Zhongcheng Bazhong") (note (i) below) | Associate | Acquisition of a property held for sale | **98,318** | – |
| Zhongcheng City Development Group Co., Limited | Associate | Interest income | **64,617** | 32,976 |
| Zhongcheng City Development Supply Chain Company Limited | Associate | Cost of trading of commodities | **59,374** | 113,791 |

*Notes:*

(i) During the year ended 31 December 2023, Zhongcheng Bazhong, a subsidiary of Zhongcheng which is an associate of the Company transferred a property held for sale to the Group which was a material non-cash transaction (see note 22(b)).

(ii) The transactions were conducted in accordance with the terms mutually agreed between the Group and associates.

As at 31 December 2023, no guarantee in respect of banking facilities granted to associates (2022: nil).

## 46. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform to the current year's presentation.

## 47. EVENT AFTER THE REPORTING DATE

Save as disclosed elsewhere in the consolidated financial statements, there has no significant event identified by the management subsequent to the reporting period.

## PROPERTIES UNDER DEVELOPMENT/FOR SALE AS AT 31 DECEMBER 2023

| Property name | Address and lot no. | Stage of completion | Expected completion date | Type | Site area (sq.m.) | Total or estimated gross floor area (GFA) at 31 December 2023 (sq.m.) | Group's interest (%) |
|---|---|---|---|---|---|---|---|
| Differ Humane Mansion 鼎豐書香豪庭 | Daying Village, Shuitou Town, Nanan, Fujian Province, PRC 中國福建省泉州南安市水頭鎮大盈村 | Completed | Completed | Residential/ Commercial | 23,762(i) | 13,595(ii) | 100 |
| Differ One City 鼎豐壹城 | South of Dongcha Road, East of Huan Cheng East Road and North of Longquanxi, Longquan City, Zhejiang Province, PRC 中國浙江省龍泉市東茶路以南環城東路以東龍泉溪以北 | Construction in progress | by the end of 2024 | Residential/ Commercial | 145,688(i) | 59,718(iii) | 100 |
| Differ Sky Peak 鼎豐天峯 | Junction of Mishan Road and Zhengqi Road, Wendeng District, Weihai, Shandong Province, PRC 中國山東省威海市文登區米山路及正氣路交界處 | Construction in progress | by the end of 2025 | Residential/ Commercial | 41,639(i) | 67,592(ii) | 100 |
| She People Ancient City 畲鄉古城 | Northern side of Renmin North Road and the eastern side of Waishe Road, Waishe Zone, Jingning Town, Lishui City, Zhejiang Province, PRC 中國浙江省麗水市景寧縣城外舍社區人民北路以北及外舍路以東 | Completed | Completed | Commercial | 173,934 | 118,267(ii) | 100 |
| Blocks 18 to 31 of Chu Zhou Fu Cheng 處州府城 | Northwest side of the intersection of Dayou Street and Dayang Road, Lishui, Zhejiang Province, PRC 中國麗水市大猷街與大洋路交匯處西北側 | Completed | Completed | Commercial | 34,761 | 32,898(ii) | 100 |

*Notes:*

(i) This site area covers all phases of development.

(ii) This represents saleable GFA of unsold/undelivered completed units.

(iii) This represents estimated GFA of unsold/undelivered completed units (excluding hotel and shopping mall portion) under present planning.

# PROPERTIES PORTFOLIO

## PROPERTIES HELD FOR INVESTMENT AS AT 31 DECEMBER 2023

| Property name | Address and lot no. | Type | Total GFA (sq.m.) | Lease term expiry date |
|---|---|---|---|---|
| Differ One City (shopping mall portion) 鼎豐壹城的商場 | South of Dongcha Road, East of Huan Cheng East Road and North of Longquanxi, Longquan City, Zhejiang Province, PRC 中國浙江省龍泉市 東茶路以南 環城東路以東 龍泉溪以北 | Commercial | 85,574 | 24 January 2060 |
| Blocks 1 to 17 of Chu Zhou Fu Cheng 處州府城 | Northwest side of the intersection of Dayou Street and Dayang Road, Lishui, Zhejiang Province, PRC 中國麗水市大猷街與 大洋路交匯處西北側 | Commercial | 30,800 | 29 October 2055 |