# ZHONG HUA INTERNATIONAL HOLDINGS LIMITED
# 中華國際控股有限公司

*(Incorporated in Bermuda with limited liability)*
Stock Code: 1064

ANNUAL REPORT 2023


**Château Rouget 1949 (Ex-Château in 2014) Pomerol France**
**The Celebration Wine for the 75th Anniversary of the Establishment of The People's Republic of China**

**慶祝中華人民共和國成立七十五週年獻禮酒**
**法國波美侯區盧吉莊1949年(2014年酒莊窖出)**

# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive Director**

Ho Kam Hung

**Non-Executive Director**

Young Kwok Sui

**Independent Non-Executive Directors**

Wong Kui Fai
Wong Miu Ting, Ivy
Tam Kong, Lawrence

## COMPANY SECRETARY

Chun Wai Yin *(ACG, HKACG)*

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## AUDITOR

Ernst & Young
*Certified Public Accountants and*
*Registered Public Interest Entity Auditor*

## LEGAL ADVISERS

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Taikoo Place
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*As to Bermuda Law*
Conyers Dill & Pearman
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Central
Hong Kong

## PROPERTY VALUERS

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Hong Kong

Vigers Appraisal and Consulting Limited
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Kowloon
Hong Kong

## PRINCIPAL BANKERS

China Minsheng Bank
Nanyang Commercial Bank, Limited

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

## COMPANY WEBSITE

www.zhonghuagroup.com

## LISTING AND STOCK CODE

The Main Board of The Stock Exchange of Hong Kong Limited: 1064

# Management Discussion and Analysis

## FINANCIAL REVIEW

Zhong Hua International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a revenue of HK$28,363,000 (2022: HK$30,283,000) for the year ended 31 December 2023. Net loss attributable to ordinary equity holders of the Company for the year was HK$482,140,000 (2022: net profit attributable to ordinary equity holders of the Company HK$3,273,000). There were no material changes in the Group's turnover during the year.

### Adjusted EBITDA

The Adjusted EBITDA of the Group for the year ended 31 December 2023 was profit of HK$6,060,000 (2022: HK$7,447,000). Adjusted EBITDA refers to the earnings before interest, tax and depreciation and does not take into account the effect of changes of fair value of investment properties, loss on derecognition of a then subsidiary and changes in fair value in equity interest in an entity at fair value through profit or loss. EBITDA is a commonly used alternate measure of profitability to net income. By including depreciation and amortisation as well as taxes and debt payment costs, EBITDA attempts to represent the cash profit generated by the Company's operations. On this ground, the Company also excluded additional non-cash items (namely (i) changes of fair value of investment properties; (ii) loss on derecognition of a then subsidiary; and (iii) changes in fair value in equity interest in an entity at fair value through profit or loss) that significantly affected the Company's net income that are non-cash in nature to achieve this goal in reviewing the Company's performance.

### Net Profit/(Loss)

The Group's loss before tax and loss after tax for the year ended 31 December 2023 were HK$1,739,488,000 (2022: profit before tax of HK$54,950,000) and HK$1,849,358,000 (2022: profit after tax of HK$34,050,000), respectively. The Group changed from profit before tax to a loss before tax during the year was attributable to (i) loss on derecognition of a then subsidiary of HK$1,708,355,000 (2022: Nil); (ii) fair value gain of equity interest in an entity of HK$16,252,000 (2022: Nil); and (iii) a fair value loss of the Group's investment properties of HK$52,304,000 for current year as compared with a fair value gain of the Group's investment properties of HK$50,692,000 for last year.

### Financial Impact of the Derecognition of A Then Subsidiary

A significant loss on derecognition of a then subsidiary, 廣州市正大房地產開發有限公司 (Guangzhou Zheng Da Real Estate Development Company Limited) ("GZ Zheng Da"), was resulted mainly because of the differences between the fair value of the equity interest in GZ Zheng Da and the original carrying amounts of respective assets and liabilities of GZ Zheng Da. All these losses were non-cash transactions and unrealised losses as well as reflected in the movements of reserve accounts of the Group through profit and loss. Accordingly, the losses recorded in the Company's consolidated financial statements did not have any impact on the liquidity of the Group for the year ended 31 December 2023.

The loss on derecognition of a then subsidiary, GZ Zheng Da, was "one off" transaction for the year ended 31 December 2023 while the changes in fair value of equity interest in an entity, GZ Zheng Da, would continue to be reflected in the consolidated income statement of the Group for subsequent financial years until and when the derecognition of the equity interest in GZ Zheng Da is ceased or the equity interest in GZ Zheng Da is realised. If GZ Zheng Da is re-consolidated as a subsidiary of the Group, a significant gain or loss on re-consolidation may be resulted with reference to the difference between then fair value of the equity interest in GZ Zheng Da and then carrying amounts of respective assets and liabilities of GZ Zheng Da. If the equity interest in GZ Zheng Da is realised, a realised gain or loss may be resulted with reference to then fair value of the entity interest in GZ Zheng Da and the net consideration to be received by the Group upon realisation.

GZ Zheng Da was used to contribute up to about 50% of the Group's consolidated revenue in the past years until its wholesale mall was demolished for re-development purpose in 2018. Since then, the re-development site had been leased to a third party for licensed carpark operation and GZ Zheng Da generated minimal revenue which represented less than 10% of the Group's consolidated revenue. Accordingly, the board of directors (the "Directors") are of the view that the derecognition of GZ Zheng Da from the Group with effect from May 2023 did not have material impact to the Group's revenue for the year ended 31 December 2023 and expect that there would not be material impact to the Group's revenue for subsequent financial years until and when GZ Zheng Da is re-consolidated to the Group once the uncertainty of the liquidation threat is being cast away by law or becomes remote and unlikely so that the Group is able to obtain the control over GZ Zheng Da under HKFRS 10 *Consolidated Financial Statements*.

The fair value of the equity interest in GZ Zheng Da was determined based on discounted net realisation value (i.e., discounted cash flow method from realisation of assets and settlement of liabilities of GZ Zheng Da). In determining the fair value of the equity interest in GZ Zheng Da, the Directors had taken into account: (i) the fair values of the underlying major assets with repossession discount and liabilities of GZ Zheng Da; (ii) relevant expenses, payments and tax for disposal of the assets, particularly the properties, according to the prevailing tax rules and other relevant PRC law and regulations; (iii) the timing to recover the investment; and (iv) the discount rate.

### Liquidity and Financial Resources

During the year ended 31 December 2023, the Group's operations were financed mainly by cash flows generated from business operations and borrowings. The Group's net cash flows from operating activities during the year were HK$24,263,000 (2022: HK$26,456,000).

# Management Discussion and Analysis

As at 31 December 2023, the Group had cash and bank balances of HK$90,761,000 (2022: HK$84,874,000).

As at 31 December 2022, the Group had outstanding borrowings of HK$72,297,000 representing a loan from a director. The balance was reclassified to an amount due to a director during the year ended 31 December 2023. The Group's exposure to interest rate fluctuation was minimal in the past years.

The Group's gearing ratio was 0.10 as at 31 December 2023 (2022: 0.04), calculated based on the Group's loan from a director of Nil (2022: HK$72,297,000) and an amount due to a director of HK$148,183,000 (2022: HK$113,915,000) over total assets of HK$1,496,606,000 (2022: HK$4,415,959,000). The Group maintained a relatively low gearing ratio in the past years. The Group's financial resources are able to meet its capital expenditure and working capital requirements for coming twelve months from the date of this report.

### Assets

As at 31 December 2023, the Group's net current assets, net assets and total assets amounted to HK$29,785,000 (2022: HK$1,034,000), HK$1,063,099,000 (2022: HK$3,021,523,000) and HK$1,496,606,000 (2022: HK$4,415,959,000), respectively.

### Exchange Rate Risk

The Group's principal operations are located in Mainland China while the financial statements of these operating subsidiaries are reported in Renminbi ("RMB"). The Company may expose to exchange rate risk when transactions and financial statements of these operating subsidiaries reported in RMB are consolidated to the Company's consolidated financial statements which are reported in Hong Kong dollars. The Group did not take measures such as execution of forward hedging or exchange swap instruments to hedge the potential impact arising from adverse currency fluctuation between RMB and Hong Kong dollars in the past years. Given the exchange rates between RMB and Hong Kong dollars were not fluctuated vigorously from time to time in the past years, the Group could reasonably assess the trend of exchange rates between the two currencies in order to reduce its adverse impact to the Company's consolidated financial statements as far as practicable.

### Grant of Share Options

On 2 December 2022, it was announced in the Company's announcement (the "Share Option Announcement") that the Company granted 60 million share options to 12 grantees at an exercise price of HK$0.09 per share pursuant to the terms of the Company's share option scheme adopted on 19 December 2012 (the "Share Option Scheme"). 55 million share options were exercised prior to 31 December 2022 raising a gross proceed of HK$4.95 million (before expenses) and 55 million new shares were issued and allotted to the option holders on 9 January 2023. Further details of the share option grant were disclosed in the Share Option Announcement.

The Share Option Scheme lapsed on 19 December 2022 but 5,000,000 share options granted under the Share Option Scheme would remain exercisable pursuant to the terms of the said scheme.

## FUND RAISING ACTIVITIES

On 15 April 2020, it was announced in the Company's announcement (the "New Issue Announcement") that the Company entered into a subscription agreement (the "Subscription Agreement") with Link Tide Investments Limited, a private company incorporated in the British Virgin Islands and an independent third party, in respect of subscription and issue of 108,000,000 new shares in the capital of the Company at an issue price of HK$0.15 per share pursuant to the Company's general mandate granted on 18 June 2019 (the "New Issue"). All conditions precedent as set out in the Subscription Agreement were satisfied and the New Issue was completed on 27 April 2020. Further details of the New Issue were disclosed in the New Issue Announcement.

The net proceeds raised from the New Issue applied up to 31 December 2023 are as follows:

| **Intended use of the net proceeds as stated in the New Issue Announcement** | | | **Proceeds utilised as at 31 December 2023** | **Proceeds unutilised as at 31 December 2023** | |
|---|---|---|---|---|---|
| **Category** | **Net amount** *(HK$ in million)* | **Percentage** | **Net amount** *(HK$ in million)* | **Remaining amount** *(HK$ in million)* | **Expected schedule of use** |
| Redevelopment costs of redevelopment project in Guangzhou, Mainland China | 12.0 | 74.5% | – | 12.0 | On or before 31 December 2024 |
| General working capital | 4.1 | 25.5% | 4.1 | – | |
| **Total** | **16.1** | **100.0%** | **4.1** | **12.0** | |

The Group held the unutilised net proceeds in short-term deposits with banks as at 31 December 2023.

Following the derecognition of GZ Zheng Da from the Group resulting in GZ Zheng Da not being regarded as a subsidiary of the Group, the Directors will consider if the intended use of proceeds of HK$12 million originally assigned for costs of the re-development project of GZ Zheng Da should be re-allocated for other purposes or not. Further announcement will be made once a decision is made by the Company.

## FINAL DIVIDEND

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2023.

# Management Discussion and Analysis

## BUSINESS REVIEW

The Group is principally engaged in property development, investment and management businesses in Mainland China. On an ongoing basis, the Group also explores investment and business opportunities in "novel and quality productivity (新質生產力)" related projects.

### Property Investment

The Group's property interest in Chongqing is situated at Chaotinmen, Yuzhong District, Chongqing (重慶市渝中區朝天門). Guang Yu Square is a 15-storey commercial building with a total gross floor area of about 49,400 square metres, out of which the Group owns portion of Basement, Levels 1 to 4, Levels 8 and 11 with total gross floor area of about 24,400 square metres. The property, which has been fully refurbished in 2016, is presently a multi-floor shopping mall focusing in wholesale and retailing of men's wear and footwear. There are about 50-70 shops per level with shop area ranging from 20–60 square metres per shop. Most shops are leased to unsolicited third parties for a term of about one year renewable automatically with prevailing market rental. The shopping mall (the floors owned by the Group) is almost fully occupied and shop turnover rate is maintained at a relatively low level. Given Chaotinmen has been one of the major clothing distribution points in Chongqing for nearby cities and the Three Gorges region (三峽地區) for decades, Guang Yu Square is one of the most popular men's wear and footwear wholesale points in the region.

For the year ended 31 December 2023, the Gang Yu Square provided a steady cash flow and substantiated the working capital requirements of the Group. As a result, the Group recorded an adjusted EBITDA of about HK$6 million for 2023. Given the prime location of the investment property in the central business district (CBD) of Chongqing, the Directors will strive to enhancing the property's competitive advantages and is confident that it will continue to provide a steady revenue to the Group in the foreseeable future.

### Property Development

GZ Zheng Da, the Group's former subsidiary, had a property interest situated at Yuexiu District, Guangzhou (廣州市越秀區). The development site, previously named as Metropolis Shoes City (廣州大都市鞋城) is located at the east of Jiefang Road South (解放南路), to the south of Daxin Road (大新路), to the north of Yede Road (一德路) and to the west of Xieen Lane (謝恩里) in Yuexiu District which is within walking distance of about 3 minutes to the Old Hall (舊館) of the Canton Fair (廣州交易會), which was once the only export window in Mainland China before its Reform and Open Door Policy (改革開放政策) implemented in 1978. It is also within walking distance of about 5 minutes to the riverbank of the Pearl River (珠江), the icon of Guangzhou.

As to-date, except for one block of building remained not yet surrendered (尚未完成拆遷) and a few shops next to the premise continued to operate business as usual, the Metropolis Shoes City was demolished and the development site was leased to a third party for licensed carpark operation.

Pending to the surrender of the last block of a 7-storey building being occupied by an individual owner (小業主), the re-development project is intended to be developed into a 22-storey versatile grade A commercial building complex with twin towers and 3-level of basement for wholesale and exhibition hall facilities, office and service apartment uses with ancillary facilities such as carpark and loading/unloading bays with total gross floor area of about 234,000 square metres.

According to the latest construction schedule (assuming construction commences in the first quarter of 2025), it is expected that the development project will take about four years and be completed by two phases, the first of which will be completed in late 2027 and the second stage will be completed in first quarter of 2029. Subject to the grant of inspection and safety permits by the relevant regulatory authorities, it is expected that the new commercial complex will commence business and generate rental revenue to the Group at its earliest in early 2028.

### Properties Held for Sale

GZ Zheng Da, the Group's former subsidiary, had a portfolio of about 190 residential units ranging from 20 square metres to 70 square metres each unit with total gross area of about 11,000 square metres. These residential units were constructed in late 1990s for the purpose of interim resettlement of occupiers who surrendered their units to GZ Zheng Da for demolition of the development site in Yuexiu District but remained vacant or available-for-sale as at to-date.

### Current Status of GZ Zheng Da

The registration status (登記狀態) of GZ Zheng Da per the official record registered at the Guangzhou Municipal Administration for Market Regulation (廣州市市場監督管理局) remained as "Enterprise in Operation (in Business) (在營(開業)) as to-date and Ho Kam Hung, an executive director of the Company, had been retaining as the authorised representative since its establishment in 1993.

Notwithstanding the New Liquidation Order (as defined below) is in force, GZ Zheng Da's operation is as usual and the demolition permit (房屋拆遷許可證) was renewed in December 2023 (renewable annually) to the effect that GZ Zheng Da was permitted to continue the demolition and relocation till December 2024. The re-development site was leased to a third party for licensed carpark operation. Further details of the re-development plan of GZ Zheng Da are disclosed in the section headed "Property Development" above.

The Directors would like to draw its shareholders' attention that:

(i) there was no change in the Group's effective interest (i.e., 25%) in Zheng Da Real Estate Development Company Limited（正大房地產開發有限公司）("HK Zheng Da") (which in turn holds 100% equity interest in GZ Zheng Da) (a) before and after the derecognition of GZ Zheng Da from the Company's consolidated financial statements with effect from 15 May 2023; (b) as at 31 December 2023; and (c) as to-date;

(ii) HK Zheng Da, which held 100% equity interest in GZ Zheng Da, retained day-to-day operating and financing activities of GZ Zheng Da as to-date and HK Zheng Da would maintain such activities in GZ Zheng Da in the foreseeable future;

(iii) there was no change in the legal titles of the underlying assets of GZ Zheng Da (primarily two parcels of land pending for re-development and a portfolio of about 190 residential units) as to-date and any dispute (if any) to this by third parties would be subject to final and absolute outcome of legal proceedings (not subject to sole discretion of the liquidator if in case the liquidation proceeded) which are expected to last for a couple of years at least; and

(iv) GZ Zheng Da's business remained usual as to-date and its operation would remain on track in the foreseeable future.

## LIQUIDATION PETITION AGAINST GZ ZHENG DA

### Background of the "Liquidation Petition"

Background of the "Liquidation Petition" against GZ Zheng Da, a former subsidiary of the Group, which had been initiated since 2009, and its lawful authority in question were disclosed in the Company's annual report for the year ended 31 December 2022 (the "Annual Report 2022").

In brief, 廣州市越秀房地產開發經營有限公司 ("Yuefang PE"), a third party who was neither the registered equity holder nor creditor of GZ Zheng Da, filed a questionable liquidation plead against GZ Zheng Da at the Guangdong Province Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院) (the "Guangzhou Court") in January 2009 on the ground that GZ Zheng Da had triggered the event of default of "company dissolution" (出現解散事由) but this event of default *(without prejudice)* had never been put forward to the court for adjuration separately as required by law.

The developments of the "Liquidation Petition" against GZ Zheng Da since the Guangzhou Court granted a written judgement (民事裁定書) dismissing the "Liquidation Petition" pleaded by Yuefang PE in May 2021 are summarised below.

### The Liquidation Dismissal Order

In May 2021, GZ Zheng Da received a written judgement from the Guangzhou Court. The written judgement granted an order to the effect that the "Liquidation Petition" pleaded by Yuefang PE was turned down (駁回強制清算申請裁定) (the "Liquidation Dismissal Order (清算駁回裁定)") on the ground that "the two joint venture parties had major disputes whether GZ Zheng Da had been dissolved, regarding major assets of, and interests in the subject company, and such disputes had never been ascertained by trial or arbitration (雙方對於廣州正大是否發生解散事由、公司主要財產以及公司權益尚有較大爭議，且爭議至今未經訴訟或者仲裁予以確認)".

In the Liquidation Dismissal Order,

(i) the Guangzhou Court ascertained that GZ Zheng Da remained "in operation (在業)" and HK Zheng Da had 100% equity interest in GZ Zheng Da. This statement affirmed that GZ Zheng Da, the appellee (被申請清算企業), remained undissolved and Yuefang PE, the applicant (清算呈請人), was not qualified to plead for compulsory liquidation in the capacity as an equity holder of GZ Zheng Da as at the date of plead (清算呈請日); and

(ii) as the ruling was not derived from an appeal lodged by the appellee, it indicated that the Guangzhou Court rectified (自糾) its earlier decision made on appointing the liquidator (清算組) for GZ Zheng Da and admitted that such decision made was, among other things, not in accordance with then prevailing compulsory liquidation law and regulations for GZ Zheng Da.

The Company was once pleased that the court ruled that Yuefang PE did not fulfill the pre-requisites (先決條件) for pleading a liquidation petition against GZ Zheng Da.

Yuefang PE submitted an appeal against the Liquidation Dismissal Order at the Guangdong Province Higher People's Court (廣東省高級人民法院) (the "Guangdong Court") as permissible by law in August 2021. The appeal was heard at the Guangdong Court in January 2022. Ruling was made in May 2023, details of which are disclosed below.

### The Claim Dismissal Order

In July 2021, GZ Zheng Da received a written judgement from the Guangdong Court. The written judgement granted an order (the "Claim Dismissal Order (索償駁回裁定)") to the effect that the pleads made by Yuefang PE were all turned down and the pleads included, but not limited to:

(i) requesting the court to affirm the Sino-foreign co-operative joint venture agreement executed between GZ Zheng Da and 廣州市越秀房地產開發經營公司 ("Yuefang SoE") in 1993 be expired and terminated on 31 December 2008;

(ii) requesting the court to affirm all remaining assets of GZ Zheng Da (primarily two parcels of land situated in Yuexiu District, Guangzhou) be allocated to Yuefang PE but not HK Zheng Da via liquidation procedures; and

(iii) demanding HK Zheng Da to pay Yuefang PE RMB450 million as the possession fee of land use rights (土地使用權佔用費) owned by GZ Zheng Da for the period from 1 January 2009 up to 30 September 2017.

The ruling was made based on the grounds, in brief, that "the pleads constituted double jeopardy and were against the relevant provisions of the Companies Law of The People's Republic of China (the "Companies Law《公司法》"), and Yuefang PE was not the owner of the land use rights of the subject land in dispute with any kind of right and hence was not the qualified litigant (訴求構成重複起訴，亦不符合《中華人民共和國公司法》相關規定，而越房私企並非涉案地塊土地使用權的所有權人因而不具起訴主體資格).

In the Claim Dismissal Order, the Guangdong Court ascertained that Yuefang PE was not the owner of the subject land registered under the name of GZ Zheng Da with any kind of right (土地所有權人), which included, but not limited to, rights of possession, use, income and disposition.

In December 2021, the Guangdong Court issued the Certificate of Verdict Validity (裁判文書生效證明) confirming the Claim Dismissal Order had become legally binding with effect from 2 August 2021.

The Company was pleased to acknowledge receipt of the Claim Dismissal Order ruling that Yuefang PE did not possess the pre-requisites for pleading the aforesaid claims against GZ Zheng Da and HK Zheng Da.

### The Rescission Order

In June 2023, GZ Zheng Da received a written judgement from the Guangdong Court. The written judgement granted an order to the effect that (i) the Liquidation Dismissal Order granted by the Guangzhou Court was rescinded (予以撤銷); and (ii) the Guangzhou Court was ordered to proceed the case (指令廣州市中院審理本案) (the "Rescission Order (撤銷駁回裁定)").

In the Rescission Order, the Guangdong Court concurred with the facts testified by the Guangzhou Court (對廣州市中院查明的事實予以確認) but was of the view that "the equity partners of GZ Zheng Da should disband in accordance with the liquidation procedures given their conflicts were significant and the co-operative objective had lapsed for a prolonged period as well as the operational management had been in deadlock. The joint venture partners should proceed legal actions via the liquidation procedures to solve mutual disputes in specific assets allocation in accordance with their respective joint venture interests (廣州正大的股東之間矛盾分歧重大，合作目的早已落空，公司經營管理陷入僵局，應當通過清算程序有序退出。合作雙方對於合作權益具體分配等事項的相關爭議，應在公司清算程序中遁法律途徑解決)".

The Company was disappointed with surprise to the verdict made by Guangdong Court as it formed an opposite view to those expressed by the Guangzhou Court. Further details pertaining to the legal rationale of the Rescission Order were disclosed in the Company's announcement dated 23 April 2024.

### The New Liquidation Order

It appeared to the Company's attention that, inter alia, a public notice pertaining to the compulsory liquidation of Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司強制清算公告) was posted by a third party named as "the Liquidator Group of Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司清算組)" (the "New Liquidation Notice") in a public domain in Mainland China in August 2023. In the said notice, it was mentioned that the Guangzhou Court had appointed Guangdong Jinzhen Law Firm (廣東金圳律師事務所) (the "New Liquidator") as the liquidator of GZ Zheng Da (the "New Liquidation Order (新清算決定)") pursuant to a plead made by Yuefang PE some 14 years ago and a directive (指令) granted by the Guangdong Court.

Following the issue of a receivership notice (接管公告) in September 2023, neither notice was further issued nor further action was taken by the New Liquidator. According to the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統), the filing of liquidator of GZ Zheng Da remained as Guangdong Guoding Law Firm (廣東國鼎律師事務所), the former liquidator which should suspend its duties once the Liquidation Dismissal Order (清算駁回裁定) was granted in May 2021, but not Guangdong Jinzhen Law Firm (廣東金圳律師事務所), the New Liquidator. Pursuant to the provisions of the Companies Law, the liquidation (*if legally enforceable*) was required to be completed within six months from the date of appointment (i.e., 7 February 2024). That was not the case for GZ Zheng Da.

### Actions Taken in Response to the Rescission Order

As disclosed in the Company's announcement dated 28 June 2024, the Group had taken the following actions in response to the Rescission Order:

(i) In July 2023, GZ Zheng Da, as permissible by law, lodged a re-trial plead (再審申請) at the First Circuit Court of The Supreme People's Court (最高人民法院第一巡迴法庭) (the "Supreme Court (最高院)") in Shenzhen, China to petition for, inter alia, (i) rescinding the Rescission Order granted by the Guangdong Court; and (ii) the case be heard at the Supreme Court. Reply was not yet received from the Supreme Court to-date.

(ii) In October 2023, HK Zheng Da obtained an independent professional opinion confirming that Yuefang SoE's interest in GZ Zheng Da was retained as a state-owned asset by law but not succeeded by Yuefang PE to-date. Based on this new evidence, HK Zheng Da sought clarifications with 廣州市越秀國有資產經營有限公司 ("Yuexiu SoE") (the vendor of Yuefang SoE), 廣州市國有資產監督管理委員會 and 廣州市人民政府等多個部門, enquiries were in progress but no decisive conclusion was made to-date.

(iii) On an on-going basis, GZ Zheng Da filed complaints to the senior officials of the Guangdong Court and the Guangzhou Court about the prejudiced legal procedures against GZ Zheng Da in the past years. The latest compliant was made in April 2024.

(iv) In April 2024, HK Zheng Da, which held 100% equity interest in GZ Zheng Da, filed a writ at the Guangzhou Court to the effect, inter alia, that:

    (i) to ascertain if Yuexiu SoE (the vendor of Yuefang SoE) retains Yuefang SoE's interest in GZ Zheng Da as a state-owned asset by law and if the *jural nexus* (法律關係) between Yuexiu SoE (the first defendant) and HK Zheng Da (the plaintiff) in the co-operative joint venture of GZ Zheng Da does substantiate;

    (ii) to ascertain if the *jural nexus* between HK Zheng Da and Yuefang PE (the second defendant) in the co-operative joint venture of GZ Zheng Da does not substantiate; and

    (iii) to claim interest loss of RMB41 million from Yuexiu SoE.

    The writ was accepted (受理) by the Guangzhou Court in May 2024 and the hearing date was tentatively fixed in August 2024. GZ Zheng Da joined the writ as an interested party (利害關係人).

(v) On 15 April 2024, the Directors, at the Company's board meeting, concurred with both GZ Zheng Da and HK Zheng Da's views on the Rescission Order as stated above but also were of the view that the operation of GZ Zheng Da might be frustrated by the New Liquidator in the foreseeable future until and when the New Liquidation Order was proved to be inoperative or dismissed by law. Meantime, GZ Zheng Da's operation remained usual to-date, as the case for the past 15 years.

In this circumstance, the Audit Committee of the Company (the "Audit Committee") was of the view that HK Zheng Da might not be able to demonstrate that it could fulfill all the criteria prescribed under HKFRS 10 *Consolidated Financial Statements* in relation to its control over GZ Zheng Da following the appearance of the New Liquidation Order (*without prejudice*). As a result, the Directors, based on the recommendation of the Audit Committee, resolved to derecognise the results of GZ Zheng Da in the consolidated financial statements of HK Zheng Da for the year ended 31 December 2023 upon the issue date of the Rescission Order which was 15 May 2023 and the interest in GZ Zheng Da would be regarded as "equity interest in an entity at fair value through profit or loss" but not as "a subsidiary" in the Company's consolidated financial statements for the year ended 31 December 2023.

Nevertheless, the Directors expressed that they would consider to re-consolidate GZ Zheng Da as a subsidiary of the Group once and when the uncertainty of the liquidation plead was being cast away indefinitely or become remote and unlikely so that the Group could be able to obtain the control over GZ Zheng Da under HKFRS 10 *Consolidated Financial Statements*.

(vi) Both GZ Zheng Da and HK Zheng Da confirmed with the Company that they would use their best endeavours to preserve their respective legal rights when the New Liquidator approached them, if any.

(vii) Both GZ Zheng Da and HK Zheng Da had been taking legal, administrative and other practical actions to solve the said deadlock.

### Management's Representation

With reference to the facts stated above and competent legal advice, the management of the Company (the "Management"), HK Zheng Da and GZ Zheng Da jointly represent as follows:

(i) According to the terms of the joint venture agreement of GZ Zheng Da (as amended by supplemental agreements) (collectively the "Joint Venture Agreements"), HK Zheng Da, as the foreign partner, was required to provide funding of HK$450 million, out of which HK$150 million as paid-up capital contribution, while Yuefang SoE, as the Chinese partner, would provide the Re-Development Outline Plan Permit (建設用地規劃許可證) (which was not transferrable and without right of deposition by law (依法不得轉讓及沒有處置權)) by means of transferring the identity of the applicant (變更申請人身份) of the subject permit from Yuefang SoE to GZ Zheng Da with the approval of the former Guangzhou Municipal Town Planning Bureau (原廣州市城市規劃局). Other than the former permit, Yuefang SoE was not required to contribute any capital, funding nor land use rights and assets. Moreover, Yuefang SoE would not assume any liability, business risks nor provide any guarantee as well as participate in daily operation of GZ Zheng Da. In return, Yuefang SoE undertook (by execution of supplemental agreements) to surrender all rights of profit sharing (residual assets upon liquidation implied) except for, inter alia, receiving a management fee of RMB10 million (payable by monthly installments of RMB50,000) and a fixed profit（固定利潤）of RMB38 million upon completion of the re-development project (regardless the project was profitable or not).

(ii) GZ Zheng Da was initially established as a Sino-Foreign Co-Operative Joint Venture by limited liability (有限責任企業法人) under the Sino-Foreign Co-Operative Joint Venture Law of The People's Republic of China (《中華人民共和國中外合作經營企業法》) in 1993. In 2006, GZ Zheng Da was restructured from joint venture enterprise to limited company (有限責任公司) in accordance with then laws and regulations. As such, HK$150 million invested into GZ Zheng Da by HK Zheng Da was certified (驗資) as cash capital contributed by HK Zheng Da while the Re-Development Outline Plan Permit (which was not transferrable and without right of deposition by law) provided by Yuefang SoE was not regarded as "certifiable capital (可予驗資資本)" by law. Accordingly, the equity ratio of HK Zheng Da and Yuefang SoE in GZ Zheng Da was 100% and 0%, respectively, under the Companies Law and this status was registered with the former Guangzhou Municipal Administration for Industry & Commerce Bureau (廣州市工商政管理局). That is, Yuefang SoE remained as a joint venture partner and promoter (公司發起人) but without capital contribution (合作方但無投入任何資本) but not an equity holder (股份權益持有人) of GZ Zheng Da.

(iii) According to the Provisions of the Supreme People's Court on Several Issues Concerning the Applications of the Companies Law (III) (最高人民法院關於適用《公司法》若干問題的規定（三)): "if the shareholder not yet fulfils all or part of his obligations to pay up capital or withdraw capital, the company may impose reasonable restrictions on rights of profit sharing, pre-emptive rights of subscribing new shares, rights of residual asset distribution in accordance with articles of association or shareholders' meeting; the People's Courts should not grant consent if the shareholder pleads for squashing of such limitations (股東未履行或者未全面履行出資義務或者抽逃出資，公司根據公司章程或者股東會決議對其利潤分配請求權、新股優先認購權、剩餘財產分配請求權等股東權利作出相應的合理限制，該股東請求認定該限制無效的，人民法院不予支持。)."

(iv) According to the Companies Law, the residual assets after debt repayment shall be distributed to shareholders in accordance with their respective paid up capital (清償公司債務後的剩餘財產，有限責任公司按照股東的出資比例分配)." 0% equity holder shall not be entitled to residual asset distribution in any circumstance.

(v) According to the Provisions Concerning the Change of Ownership of Investors of Foreign Invested Enterprises (《外商投資企業投資者股權變更的若干規定》), if there is change in ownership of Chinese investor which investment is financed by stated-owned assets, the fair value of such ownership shall be appraised by state-owned asset appraisal bodies and such appraisal value shall be affirmed by state-owned asset management department; then the affirmed appraisal value shall be regarded as the basis of consideration for transfer of such ownership (以國有資產投資的中方投資者股權變更的，必須經有關國有資產評估機構對需變更的股權進行價值評估，並經國有資產管理部門確認。經確認的評估結果應作為變更股權的作價依據). That is, any detachment of state-owned asset (國有資產剝離) should be subject to independent and separate appraisal and approval of state-owned asset supervising body.

(vi) According to court papers, 惠州市美亞投資有限公司, a private enterprise (民企), acquired the entire interest in Yuefang SoE from Yuexiu SoE in 2007 and the enterprise name was changed from Yuefang SoE to Yuefang PE as a result of corporate restructuring. Whether Yuefang SoE's interest in GZ Zheng Da (i.e., the contingent profit of RMB38 million) as listed in the chattel list for sale (資產出讓清單) had been independently appraised and separately approved by the state-owned asset supervising body is in doubt.

(vii) It appeared that Yuefang SoE's interest in GZ Zheng Da is retained as a state-owned asset of Yuexiu SoE to-date as the conditions of detachment of state-owned asset had yet been fulfilled. It further appeared that Yuefang PE was unable to submit the aforesaid documents for substantiating its ownership of GZ Zheng Da at the former Guangzhou Guangzhou Municipal Administration for Industry & Commerce Bureau (原廣州市工商行政管理局) in 2007.

(viii) According to the official record registered at the Guangzhou Municipal Administration for Market Regulation (廣州市市場監督管理局) to-date, the Sino partner of GZ Zheng Da remained as Yuefang SoE, but not Yuefang PE, holding 0% equity interest therein.

(ix) The Rescission Order has *jus judicata* (既判力) and hence the New Liquidation Order can only be set aside by an overriding ruling or judgment. As such and in April 2024, HK Zheng Da initiated a plead at the Guangzhou Court to ascertaining if Yuexiu SoE retained Yuefang SoE's interest in GZ Zheng Da as a state-owned asset by law and if the *jural nexus* (法律關係) between Yuexiu SoE and HK Zheng Da in GZ Zheng Da did substantiate. The New Liquidation Order would be void and inoperative as permissible by law if the plead is ascertained by the court. HK Zheng Da is confident in obtaining a favourable ruling for this plead.

(x) If in the unlikely event the New Liquidation Order proceeds and the New Liquidator prepares the liquidation plan according to the provisions of the Companies Law (*without prejudice*), Yuefang PE shall not be entitled to any residual asset distribution as its equity interest in GZ Zheng Da is 0% on record. If this is the case, it is uncertain if Yuefang PE will lodge other claim(s) at the court demanding for sharing part of the residual assets. HK Zheng Da expects that such legal proceeding may last for a prolong period, say three to five years, and such claim, if made, is not substantiated and without legal grounds.

(xi) According to the terms of the Joint Venture Agreements, the Chinese partner of GZ Zheng Da is entitled to a fixed profit of RMB38 million upon completion of the re-development. As the re-development may be interrupted due to the liquidation, it is questionable if this fixed profit shall be regarded as "residual asset" for distribution to the Chinese partner and the outcome to this may be subject to court's ruling.

(xii) It appears that if GZ Zheng Da has breached the event of default of "company dissolution" (解散事由) which constituted the primary pre-requisite of liquidation by law is questionable as this breach (if taken place) has not yet been adjudicated by court separately. GZ Zheng Da believes that this breach never happened as (i) the operating period as prescribed by articles of association of GZ Zheng Da has been renewed for 15 years by unanimous board resolution (including votes representing the Chinese partner's interest) and this resolution is valid and binding unless vetoed by court's ruling; and (ii) GZ Zheng Da has filed the operating period extension application with Guangzhou Municipal Foreign Economic and Trade Commission (廣州市對外經濟貿易委員會) (the "Trade Commission"), the governing body, prior to the expiry of the operating period. In accordance with then legal provisions and administrative procedures, the renewal application should be regarded as "being approved" if the Trade Commission did not issue "objection letter" upon acknowledgment receipt (受理) of renewal application. No objection letter received by GZ Zheng Da so far. Whether the acknowledgment receipt is a valid legal evidence for operating period renewal had never been adjudicated by court. GZ Zheng Da has put this argument in the re-trial plead at the Supreme Court in July 2023. Reply was not yet received from the Supreme Court so far.

## MANAGEMENT'S RESPONSE TO THE QUALIFIED AUDIT OPINION

It is noted that the Company's auditor issued a qualified audit opinion on the Company's consolidated financial statements for the year ended 31 December 2023 and the basis for qualified opinion is set out from pages 45 to 46 of this annual report. This is the first qualified audit opinion on the Company's consolidated financial statements since its listing in 1997.

Taking into account the facts and competent legal advice, together with legal grounds substantiated, the Management contends that HK Zheng Da shall have 100% entitlement to the residual assets of GZ Zheng Da pursuant to the terms of the Joint Venture Agreements under liquidation (*if it takes place and without prejudice*) and relevant PRC laws, but there remains potential legal risk that Yuefang PE may claim for sharing part of the residual assets of GZ Zheng Da based on its own basis of asset contribution made (if any) in the past. However, the Management remains optimistic in obtaining a favourable judgement if and when such potential disputes in specific asset allocation in accordance with the respective joint venture partners' interests are brought to legal proceedings. Such legal proceedings are not yet initiated to-date and the basis of claim, outcome and impact to the Group, if any, remain uncertainty to-date.

The Audit Committee, after reviewing the facts and information available to them and taking competent legal advice, endorses the views of the Management.

Further elaborations of the Management's actions taken against such potential claim(s) are disclosed above.

For the avoidance of confusion, the Management refers to the executive director and senior management of the Company.

## MATERIAL ACQUISITION UPDATE

The Group was engaged in a material acquisition, details of which were disclosed in the Annual Report 2022. Latest development of the Acquisition (as defined in note 32(a) to the financial statements) since 30 June 2023, the date of the Company's announcement pertaining to the previous extension agreement, is summarised below.

Notwithstanding GZ Zheng Da, the underlying operating company of HK Zheng Da, had been frustrated by a questionable liquidation plead for years, the Company reiterated that the liquidation plead was not substantiated by both facts and law and hence was confident that the action would be inoperative or dismissed by law in the foreseeable future (*say, about one year*). On this basis, the Group entered into a new extension agreement on 24 June 2024 to further extend the Long Stop Date (as defined in note 32(a) to the financial statements) to 30 June 2026 with an aim of arriving revised terms for the Acquisition. If a revised timetable is concluded, it is anticipated that the Acquisition will be financed by debt financing, equity financing, bank borrowing, private-equity funding or a combination of the four kinds. If in case the Acquisition lapses on 30 June 2026, no party shall be liable to each other. Further details of the 2024 Extension Agreement were disclosed in the Company's announcement dated 24 June 2024.

Further announcement will be made to address the rationale and benefits to the Company as a whole once a concrete decision on exercise of the exclusive rights to acquire further tranche(s) pursuant to the Acquisition Agreement or not is made by the Company.

## MATERIAL LITIGATION UPDATE

Following the derecognition of GZ Zheng Da from the Group in May 2023, the Group did not engage in new litigation or had litigation outstanding during the year ended 31 December 2023.

Subsequent to 31 December 2023, HK Zheng Da, a subsidiary of the Group, initiated a litigation against Yuexiu SoE at the Guangzhou Court in April 2024, details of which are disclosed in the section headed "Actions Taken in Response to the Rescission Order" above.

# Management Discussion and Analysis

## OUTLOOK

Following restriction policies on residential unit purchases being uplifted in most major cities nationwide, both property users and investors initiated their purchase incentives from scratch in the second quarter this year. Given the domestic consumer market in Mainland China remains relatively weak as compared to five years ago, it is perceived that the property market nationwide remains on consolidation. It is anticipated that it may take a couple of years for the property market to bouncing from the bear market. The Directors will monitor the market trend closely and regulate the Group's property portfolio and re-development schedules.

Since this March, the Central Government has been promoting the campaign of "moving forward and accelerating the developments of 'novel and quality productivity' (推動新質生產力加快發展)". "Novel productivity" refers to innovative ideas of products and production workflow while "quality productivity" refers to more cost efficient and more environmentally friendly products and production flow. The goal for novel and quality productivity may not be capital intensive. The Directors consider that conventional production chain upgrading and re-modelling will also meet the objective of "novel and quality productivity". To embrace this new wave of opportunities, the Directors will actively explore appropriate investment or business projects with reasonable capital budget to achieve the goal of "novel and quality productivity".

In Hong Kong, amid interest rate remains at record high level, both re-export trading and domestic consumer market continue the declining trend while the property market remains on consolidation. It is anticipated the downward trend may bounce back once the US Federal Reserve initiates the interest cut cycle before year end or early next year. Hong Kong is now under more secured national security umbrella following the promulgation of "Article 23" of the Basic Law this first half year, it is generally perceived that, amid Hong Kong migrates "from the stability stage to prosperity stage" (由治及興), Hong Kong will be able to remap its advantages at the junction of transformation to a new chapter of economy. The Directors fully support the Hong Kong Administration to govern in accordance with the Basic Law (全力支持香港特區政府依法施政).

Taking this opportunity, the Directors pay tribute to the 75$^{th}$ anniversary of the establishment of The People's Republic of China.

## EMPLOYMENT AND REMUNERATION POLICIES

As at 31 December 2023, the Group had about 20 (2022: 30) employees. Total staff costs (including directors' remuneration) for the year under review amounted to HK$7,055,000 (2022: HK$8,280,000).

Remuneration policies are reviewed regularly by the Remuneration Committee and the Directors in respect of remuneration of the Directors and senior management. The Group values all employees and recognises their contributions, and is committed to establishing fair and caring relationship with its employees by offering competitive compensation packages comparable to market benchmark. Further information about the Group's human resources policies are disclosed in the "Environmental, Social and Governance Report" below.

## ANNUAL GENERAL MEETING

It is intended that the forthcoming annual general meeting of the Company will be held in September 2024.

Notice of annual general meeting of the Company and related circular to shareholders will be sent to the shareholders of the Company under separate cover.

# Report of the Directors

The Directors have pleasure in presenting their report together with their audited financial statements for the year ended 31 December 2023.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 32 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## BUSINESS REVIEW

A fair review of the business of the Group, comprising a discussion and analysis of the performance of the Group during the year including analysis using financial key performance indicators, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred (if any) since the end of the year ended 31 December 2023, as well as an indication of likely future development in the business of the Group, are provided in the following sections:

- "Management Discussion and Analysis" on pages 3 to 19.

- "Financial Risk Management Objectives and Policies" in note 30 to the financial statements on pages 107 to 109.

- "Corporate Governance Report" on pages 30 to 37.

All such discussions form part of this annual report.

## PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed in the annual report, the Directors are not aware of any principal risks and uncertainties of the Group.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2023 and the Group's financial position at that date are set out in the financial statements on page 52 and pages 54 to 55, respectively, of this annual report.

The Group's principal businesses are property development, investment and management. Due to the nature of business, which is heavy capital driven, the Directors aim at maintaining working capital resources to a material extent as well as long term capital appreciation rather than short to medium term profits. As such, the Directors resolved a no dividend policy until and when the re-development projects in pipeline are completed and manage to generate steady and recurring income.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2023.

# Report of the Directors

## FIVE YEAR GROUP FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from its audited financial statements, is set out on page 124 of the annual report. This summary does not form part of the audited financial statements.

## SHARE CAPITAL

Details of the movement of the Company's share capital are set out in note 23 to the financial statements.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

## DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company did not have reserves available for cash distribution and distribution in specie. In addition, in accordance with the Bermuda Companies Act 1981, the Company's share premium account, in the amount of HK$17,344,000, are distributable in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and supplier were as follows:

(i) the sales attributable to the Group's largest customer represented 100% of the Group's total sales for the year; and

(ii) the Group had no major supplier due to the nature of principal activities of the Group.

As far as the Directors are aware, neither the Directors, their respective close associates nor any substantial shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's four largest customers.

## DIRECTORS

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

**Executive Director:**

Ho Kam Hung

**Non-Executive Director:**

Young Kwok Sui

**Independent Non-Executive Directors:**

Tam Kong, Lawrence
Wong Miu Ting, Ivy
Wong Kui Fai

All non-executive Directors, including independent non-executive Directors, are appointed for a term of one year. In accordance with the Company's bye-laws, all of them shall retire from office by rotation, and, being eligible, will offer themselves for re-election at the Company's annual general meeting.

In accordance with the Company's bye-laws, Ho Kam Hung and Wong Kui Fai shall retire from office by rotation, and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence from Tam Kong, Lawrence, Wong Miu Ting, Ivy and Wong Kui Fai, and regards these directors to be independent as at the date of this report.

Details of the profile of the Directors are set on page 44 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the Company's forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for those disclosed in section headed "Connected Transactions" below and note 34 to the financial statements, no transactions, arrangements or contracts of significance in relation to the business of the Group to which the Company or any of the Company's subsidiaries was a party and in which a director nor a connected entity of a director of the Company had a material interest, either directly or indirectly, subsisted as at the end of the reporting period or at any time during the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

## SHARE OPTION SCHEME

The Company operated a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who made contributions to the Group's operations and profitability. The Share Option Scheme was adopted on 19 December 2012 and remained in force for 10 years from that date. The Share Option Scheme was lapsed on 18 December 2022. Further details of the Share Option Scheme are disclosed in note 24 to the financial statements.

The movements in the share options granted, exercised and remained outstanding during the year are as follows:

| | Number of share options | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name or category of participant | At 1 January 2023 | Granted during the year | Exercised during the year | Lapsed during the year | As at 31 December 2023 | Date of grant of Share Options* | Exercise period of Share Options* | Exercise price of Share Options** *HK$ per share* |
| Former Non-Executive Director | | | | | | | | |
| Lam Kuo | 5,000,000 | – | – | – | 5,000,000 | 2-12-2022 | 3 years/ 2-12-2022 to 1-12-2025 | 0.09 |

Notes to the table of Share Option Scheme during the year:

* The share options had been vested at the date of grant.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The closing price of the shares immediately before the date on which the Share Option was granted during the year was HK$0.082 per share.

55,000,000 new shares were issued on 9 January 2023. At the date of approval of this annual report, the Company had 5,000,000 Share Options remained outstanding.

No share options were exercised during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2023, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of the Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Issuers (the "ST Code") as set out in Appendix 10 of Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") and which were required to be entered into the register pursuant to Section 352 of the SFO, were as follows:

| | | Number of shares held | | Percentage of |
|---|---|---|---|---|
| **Name of director and chief executive** | **Capacity and nature of interest** | **Long position** | **Short position** | **the Company's share capital** |
| Ho Kam Hung *(note)* | Through controlled corporations | 110,600,000 | – | 14.39 |
| | Share options exercised | 7,000,000 | – | 0.91 |
| | | 117,600,000 | – | 15.30 |

*Note:*

Ho Kam Hung is deemed (by virtue of the SFO) to be interested in these shares in the following capacities:

(i) 10,800,000 shares are held by Morcambe Corporation which is beneficially owned by him;

(ii) 87,120,000 shares are held by EC Fair Limited, in which he has 33 1/3% interest; and

(iii) 12,680,000 shares are held by High Rank Enterprises Limited, in which he has approximately 31.6% interest.

(iv) 7,000,000 shares are held by him personally upon exercise of 7,000,000 share options.

## SHARES IN ASSOCIATED CORPORATIONS OF THE COMPANY

At 31 December 2023, the following Director had interests in the non-voting deferred shares in certain subsidiaries of the Company:

### Long position in shares of the associated corporations

| Name of director and chief executive | Name of associated corporation | Relationship with the Company | Shares/ equity derivatives | Numbers of shares/equity derivatives held Long position | Numbers of shares/equity derivatives held Short position | Capacity and nature of interest | Percentage of the associated corporation's issued share capital |
|---|---|---|---|---|---|---|---|
| Ho Kam Hung | Smart Hero (Holdings) Limited | Company's subsidiary | Non-voting deferred shares | 91 | – | Directly beneficially owned | 30.13 |
| | China Land Realty Investment Limited | Company's subsidiary | Non-voting deferred shares | 91 | – | Directly beneficially owned | 30.13 |

All the above mentioned non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the relevant company, or to participate in any distribution on winding-up.

Save as disclosed above, as at 31 December 2023, to the best knowledge of the Company, none of the Directors or chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the ST Code.

## CONNECTED TRANSACTIONS

The Company had the following connected transactions, details of which were disclosed in accordance with the requirements of Chapter 14A of the Listing Rules:

(i) on 30 June 2023, the Company entered into an extension agreement with the Vendors (as defined in page 113 of this annual report) to extend the dates of completion of the second, the third and the fourth tranches (collectively the "Remaining Tranches") in relation to the Acquisition (as defined in page 113 of this annual report) from 30 June 2023 to 30 June 2024, while no deferred interest is required for the period of extension. Further details are disclosed in page 18 of this annual report. Subsequent to the end of the reporting period, the Company entered into an extension agreement on 24 June 2024 to extend the completion of the Remaining Tranches from 30 June 2024 to 30 June 2026; and

(ii) an interest expense of HK$843,000 was incurred in respect of a loan from Ho Kam Hung, a Director, during the year. Details of a loan from a director are disclosed in notes 21 and 34 to the financial statements.

## CONTINUING CONNECTED TRANSACTION

During the year, the Group had the following continuing connected transaction, details of which were disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

A license fee of HK$1,793,000 (2022: HK$458,000) was incurred by a subsidiary of the Company for the rights to use the office (without exclusivity) in Hong Kong on a cost basis from a company owned by an executive Director. As at 31 December 2023, an amount due to the related company of HK$1,438,000 (2022: HK$458,000) was included in "Other Payables and Accruals" on the Company's consolidated statement of financial position. The continuing connected transaction under the licensing agreement constitutes a de minimis transaction under the Listing Rules and is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section headed "Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or their respective spouse or minor children to acquire such rights in any other body corporate.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2023, the Group had about 20 employees and the total staff costs (including Directors' and chief executive's remuneration) accumulated to approximately HK$7.1 million. Remuneration policies are reviewed regularly by the Remuneration Committee and the Directors. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective regions in which the Group operates.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2023, to the knowledge of the Company, the following persons (other than Directors or chief executive of the Company) had interests or short positions in the shares and underlying share as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

### Long positions:

| Name of shareholders | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company's share capital |
|---|---|---|---|
| Ye Jia Li *(note 1)* | Interest of spouse | 117,600,000 | 15.30 |
| Ho Tsam Hung *(note 2)* | Through controlled corporations | 105,600,000 | 13.74 |
| Ho Pak Hung *(note 3)* | Through controlled corporations | 99,800,000 | 12.98 |
| Liang Gui Fen *(note 4)* | Interest of spouse | 99,800,000 | 12.98 |
| EC Fair Limited *(notes 2 and 3)* | Directly beneficially owned | 87,120,000 | 11.33 |
| Link Tide Investments Limited *(note 5)* | Directly beneficially owned | 108,000,000 | 14.05 |
| Guangshi Harvest Limited *(note 6)* | Through controlled corporation | 108,000,000 | 14.05 |
| China Guangshi International Investments Holdings Co., Ltd. *(note 7)* | Through controlled corporation | 108,000,000 | 14.05 |
| 新疆光實含弘股權投資管理有限公司 | Through controlled corporation | 108,000,000 | 14.05 |
| Strong Hero Holdings Limited *(note 8)* | Directly beneficially owned | 100,000,000 | 13.01 |
| Xie Xiaoxiang | Through controlled corporation | 100,000,000 | 13.01 |

*Notes:*

1. Ye Jia Li is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the capacity as the spouse of Ho Kam Hung, a Director.

2. Ho Tsam Hung is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the following capacities:

   (i) 5,800,000 shares are held by Morgan Estate Assets Limited, which is beneficially owned by him;

   (ii) 87,120,000 shares are held by EC Fair Limited, in which he has 33 1/3% interest; and

   (iii) 12,680,000 shares are held by High Rank Enterprises Limited, in which he has approximately 31.6% interest.

3. Ho Pak Hung is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the following capacities:

   (i) 87,120,000 shares are held by EC Fair Limited, in which he has 33 1/3% interest; and

   (ii) 12,680,000 shares are held by High Rank Enterprises Limited, in which he has approximately 31.6% interest.

4. Liang Gui Fen is deemed (by virtue of Part XV of the SFO) to be interested in these shares in the capacity as the spouse of Ho Pak Hung.

5. Link Tide Investments Limited is wholly-owned by Guangshi Harvest Limited.

6. Guangshi Harvest Limited is wholly-owned by China Guangshi International Investments Holdings Co., Ltd.

7. China Guangshi International Investments Holdings Co., Ltd. is wholly-owned by 新疆光實含弘股權投資管理有限公司.

8. Strong Hero Holdings Limited is wholly-owned by Xie Xiaoxiang.

Save as disclosed above, as at 31 December 2023, no person, other than the Directors, whose interests are set out in "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares, underlying shares or debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. Being a property developer, wholesale and retailing premises operator in Mainland China, the Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. These include regulations on air and noise pollution, sewage treatment and disposal of building debris in public domain. Compliance procedures are in place from time to time to ensure adherence to applicable laws, rules and regulations.

During the year under review, so far as the Directors are aware, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Moreover, the Management also brought attention to any latest changes in applicable laws, rules and regulations and reminded relevant employees and operation units from time to time.

Please refer to pages 38 to 43 of this annual report under the section headed "Environmental, Social and Governance Report" for further details.

## RELATIONSHIP WITH EMPLOYEES

The Group is committed to establishing a close and caring relationship with its employees.

The Group also provides a fair and safe workplace, promotes diversity to its staff, provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to its employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, improve their performance and self-fulfillment in their roles.

## PERMITTED INDEMNITY AND DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Pursuant to the Company's Bye-laws, all Directors or officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by them as Directors or officers of the Company in defending any proceedings, provided that no fraud or dishonesty were committed by the said persons.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors as at the date of this report, the Company maintained the prescribed amount of public float as required under the Listing Rules at all times up to the date of this report.

## EVENTS AFTER THE REPORTING PERIOD

Save for those disclosed elsewhere in the annual report, events occurred subsequent to 31 December 2023 were disclosed in note 37 to the financial statements.

## AUDITOR

Ernst & Young will retire at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

**Ho Kam Hung**
*Executive Director*

Hong Kong
28 June 2024

This corporate governance report describes the Company's corporate governance practices and explains the application of the principles of the code provisions of the Corporate Governance Code (the "Governance Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2023 and for the period up to the date of this report. The Directors are of the view that the Company complied with the Governance Code throughout the year.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Securities Code set out in Appendix 10 to the Listing Rules as the code for securities transactions by the Directors. Amendments will be made to the Securities Code in order to conform with any new amendments made to Appendix 10 to the Listing Rules from time to time. Having made specific enquiry to all Directors, the Company confirmed that the Directors complied with the required standards set out in the aforesaid code throughout the year under review.

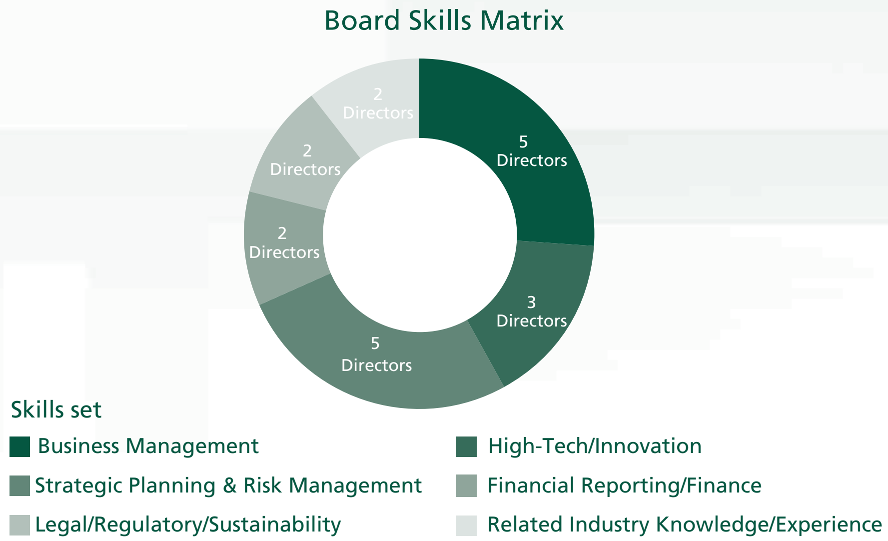
## BOARD OF DIRECTORS

The Directors are responsible for determining those matters that are to be retained for full board's sanctions including, but not limited to, overall strategy and long-term objectives, new business opportunities, business plans and financial statements, interim and final results, material acquisitions and disposal of assets, capital projects and commitments, cash flow projections and planning, funding and risk management policies, material litigations, connected transactions and corporate governance.

The Directors delegated the day-to-day responsibilities in respect of management and administrative functions to the senior management of the Group including, but not limited to, implementing and achieving the strategies and objectives set by the Directors as well as overseeing the performance of different operating subsidiaries, monitoring and implementing proper accounting system and internal control.

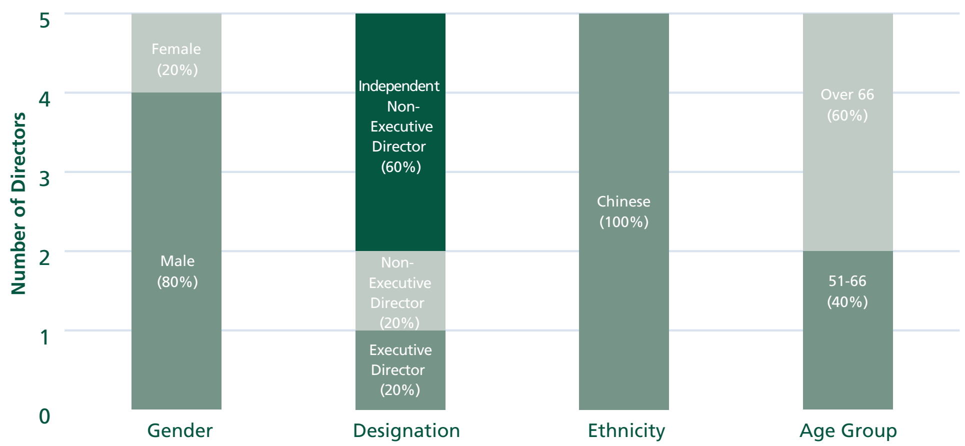
The Directors perceived that gender or age diversity policy itself may constitute a kind of discrimination to certain extent. Hence, the Directors would not pursue parameters for gender or age diversity on the board (the "Board") but always invite the most suitable candidates as new board members.

The following board skills matrix shows a breakdown of the diverse skills set of the Board.




Note: The Board comprises 5 Directors.

The following chart shows the diversity profile of the Board as at 31 December 2023:




As to-date, the Board comprises of five members, i.e., one executive Director, one non-executive Director and three independent non-executive Directors, all of them have been serving on board for more than 10 years.

At the Company's annual general meeting held on 28 July 2023, the chairperson of the meeting declared that all three independent non-executive Directors had served on the Board for more than nine years. Wong Miu Ting, Ivy and Tam Kong, Lawrence, two of the three independent non-executive Directors, were re-elected upon retirement by rotation pursuant to the Company's bye-laws.

The Directors also have the corporate governance function, which is to determine the policy for the corporate governance of the Company and duties performed by the Directors under the provisions of the Governance Code.

Independent non-executive Directors held lunch meetings regularly to discuss the Company's affairs and corporate governance matters.

Four regular and two ad-hoc board meetings were held during the year ended 31 December 2023. The attendance record of each Director at the said meetings throughout the year is set out as follows:

| Name | Attended/ Eligible to Attend |
|---|---|
| **Executive Director** | |
| Ho Kam Hung | 6/6 |
| **Non-Executive Director** | |
| Young Kwok Sui | 6/6 |
| **Independent Non-Executive Directors** | |
| Tam Kong, Lawrence | 6/6 |
| Wong Miu Ting, Ivy | 6/6 |
| Wong Kui Fai | 6/6 |

The Company kept full and paper record of board minutes. The Directors' views and discussions (in particular different views, if any) were recorded in board minutes.

During the year ended 31 December 2023, the Directors participated in the following trainings:

| Name | Type of Training |
|---|---|
| **Executive Director** | |
| Ho Kam Hung | A |
| **Non-Executive Director** | |
| Young Kwok Sui | A |
| **Independent Non-Executive Directors** | |
| Tam Kong, Lawrence | A |
| Wong Miu Ting, Ivy | A |
| Wong Kui Fai | A |

A: reading newspaper, journals and updates relating to the economy, general business or directors' duties etc.

## BOARD INDEPENDENCE

The Company recognises that board independence is key to good corporate governance. As part of the established governance framework, the Group has in place effective mechanisms that underpin a strong independent board and that independent views and input from Directors are conveyed to the Board. The governance framework and mechanisms are kept under regular review to align with market practice, ensuring their effectiveness.

The current composition of the Board (more than one third independent non-executive Directors) and the Audit Committee (comprising all independent non-executive Directors) exceed the independence requirements under the Governance Code. The Nomination Committee and Remuneration Committee are both chaired by independent non-executive Directors. The Company has set guidelines for selection, nomination and appointment/re-appointment process for Directors (including independent non-executive Directors). Fees to independent non-executive Directors are in the form of cash payment. None of independent non-executive Directors receives remuneration based on performance of the Group.

## CHAIRMAN AND CHIEF EXECUTIVE

The Governance Code stipulates that the roles of chairman and chief executive should be separated and exercised by different persons. In order to comply with this provision by spirit, board meetings and general meetings of the Company were chaired by non-executive Director or independent non-executive Directors by rotation at most of the time throughout the year under review. The Company considers that this practice is in line with the spirit of the Governance Code's practice.

Ho Kam Hung, being the Managing Director, is regarded as performing similar role as a chief executive officer.

## NON-EXECUTIVE DIRECTORS

The terms of office of all non-executive Directors (including independent non-executive Directors), who are subject to earlier determination or retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws and/or applicable laws and regulations, are fixed for one year renewable automatically on an annual basis.

The Company received from each of its independent non-executive Directors confirmation of independence and considered that each of them is independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to the provisions of the bye-laws of the Company, any director appointed by the Company either to fill a casual vacancy or as an addition to the Board shall hold office until the forthcoming annual general meeting and shall then be eligible for re-election. Furthermore, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the Chairman and/or the Managing Director shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. However, the Managing Director, though without a specified term, voluntarily retired and offered himself for re-election at the Company's annual general meetings in the past years. The Company considers that this practice is in line with the spirit of the Governance Code's practice.

## AUDIT COMMITTEE

The present members of the Audit Committee are comprised of three independent non-executive Directors, Wong Miu Ting, Ivy, as Chairperson, Wong Kui Fai and Tam Kong, Lawrence and one non-executive Director, Young Kwok Sui.

The attendance record of each member at the audit committee meetings throughout the year is as follows:

| **Name of members** | **Attended/ Eligible to Attend** |
|---|---|
| Wong Miu Ting, Ivy *(Chairperson)* | 3/3 |
| Wong Kui Fai | 3/3 |
| Tam Kong, Lawrence | 3/3 |
| Young Kwok Sui | 3/3 |

Terms of reference of the Audit Committee, which have been adopted in 2012, are posted in the Company's website. The main duties of the Audit Committee include, inter alia, reviewing the financial information of the Group and overseeing the Group's financial reporting system, internal control procedures and connected transactions.

## REMUNERATION COMMITTEE

The Remuneration Committee comprises of three independent non-executive Directors, Tam Kong, Lawrence, as Chairman, Wong Miu Ting, Ivy and Wong Kui Fai, and one executive Director, Ho Kam Hung.

The attendance record of each member at the remuneration committee meetings throughout the year is as follows:

| Name of members | Attended/ Eligible to Attend |
|---|---|
| Tam Kong, Lawrence *(Chairman)* | 1/1 |
| Ho Kam Hung | 1/1 |
| Wong Kui Fai | 1/1 |
| Wong Miu Ting, Ivy | 1/1 |

Terms of reference of the Remuneration Committee, which have been adopted in 2012, are posted on the Company's website. The main duties of the Remuneration Committee include, inter, alia, determining remuneration policy for Directors and senior management and reviewing remuneration packages including performance-based remuneration.

## NOMINATION COMMITTEE

The Nomination Committee comprises of three independent non-executive Directors, Wong Kui Fai, as Chairman, Tam Kong, Lawrence, and Wong Miu Ting, Ivy and one executive Director, Ho Kam Hung.

The attendance record of each member at the nomination committee meetings throughout the year is as follows:

| Name of members | Attended/ Eligible to Attend |
|---|---|
| Wong Kui Fai *(Chairman)* | 1/1 |
| Ho Kam Hung | 1/1 |
| Tam Kong, Lawrence | 1/1 |
| Wong Miu Ting | 1/1 |

Terms of reference of the Nomination Committee, which have been adopted in 2012, are posted on the Company's website. The main duties of the Nomination Committee include, inter alia, determining policy for nomination of directors and nomination procedures and criteria for selecting and nominating candidates for directorship.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Directors acknowledge their responsibility for the Group's internal control and through the Audit Committee, conduct periodic review on the effectiveness of such areas, covering material controls, financial, operational and compliance controls and risk management functions. The process used in reviewing the effectiveness of such internal control system includes discussion with management on risk areas identified by management. The purpose of the Group's internal control is to provide reasonable, but not absolute, assurance against potential material misstatement or loss and to manage rather than eliminate risks of failure in operational system so that the Group's objectives can be achieved.

The Directors also reviewed if the Group had adequate resources, staff qualifications and experience, training programmes and financial reporting functions to meet the risk management needs.

The Directors consider that the Group's risk management was in order during the year under review.

## WHISTLEBLOWING POLICY

In line with the commitment to achieve and maintain a high standard of openness, probity and accountability, the Directors expect and encourage employees of the Group and those who deal with the Group (e.g. customers, suppliers, creditors and debtors) to report to the Company, in confidence, any suspected impropriety, misconduct or malpractice within the Group. In this regard, the Company has adopted the Whistleblowing Policy which aims to provide reporting channels and guidance on reporting possible improprieties and reassurance to whistleblowers of the protection that the Group will extend to them against unfair dismissal or victimisation for any genuine reports made. The Board delegated the authority to the Audit Committee which is responsible for ensuring that proper arrangements are in place for fair and independent investigation of any matters raised and appropriate follow-up actions are taken.

## ANTI-FRAUD AND ANTI-BRIBERY POLICY

In all its business dealings, the Group does not tolerate any form of fraud or bribery, whether direct or indirect, by, or of, its Directors, officers, employees, agents or consultants or any persons or companies acting for it or on its behalf. The Anti-Fraud and Anti-Bribery Policy, which outlines the Group's zero-tolerance stance against bribery and corruption, assists employees in recognising circumstance which may lead to or give the appearance of being involved in corruption or unethical business conduct, so as to avoid such conduct which is clearly prohibited, and promptly to seek guidance where necessary.

## AUDITOR'S REMUNERATION

During the year ended 31 December 2023, the fees charged by the Company's auditor, Ernst & Young, for the Group's annual audit services amounted to HK$1,920,000.

## CONSTITUTIONAL DOCUMENTS

The existing Company's bye-laws were adopted in August 2023 and no amendments had been made since then. The Company's legal advisers will review the Company's bye-laws so that they manage to cope with the latest legislative provisions and put forward for shareholders' approval at the forthcoming annual general meeting if amendments to be made.

## SHAREHOLDERS' RIGHTS

The Directors believes that effective communication with the shareholders on a timely basis is essential. Shareholders can, by written requisition to the Board or the company secretary of the Company, to convene a special general meeting, subject to the relevant provision of the Company's bye-laws. The Company also posted "The Procedures for Shareholders to Propose A Person for Election as a Director" on the Company's website.

At general meetings, the Chairperson of the meeting will explain the detailed procedures for conducting a poll and answer any questions from shareholders on voting by poll. All resolutions to be voted at general meetings will be voted by separate resolutions as far as practicable.

## INVESTOR RELATIONS

Shareholders are also provided with contact details of the Company, such as telephone number, fax number, email address and postal address in the Company's website www.zhonghuagroup.com, so that they may make query to the Company should they think necessary. Shareholders can also put forward their proposals at shareholders' meetings through reasonable access means subject to the provisions as set out in the Company's bye-laws.

As a platform of exchange views between the Company and its shareholders, all Directors and the Company's auditor attended shareholders' meeting during the year under review.

# Environmental, Social and Governance Report

## INTRODUCTION

This environmental, social and governance ("ESG") report is prepared pursuant to Appendix 27 to the Listing Rules and serves as a summary of the Group's ESG management approach, strategies, priorities and objectives, and explains how these parameters relate to or affect the Group's business and operation.

## ESG FRAMEWORK

ESG risks and opportunities are considered at the board level of the Group, with the Directors having overall responsibilities for determining the Group's ESG risks and ensuring reasonable but effective risk management and sound internal control system. The Directors guide the Management in setting goals and directions regarding ESG matters with reference to the Group's business objectives and operational models in practice. The Directors also evaluate the balance between the Group's operational efficiency and ESG compliance costs.

## ESG EVALUATION

To achieve the aforesaid objectives, the Management presents an annual update at the first full board meeting of the Company to be convened every year. In the annual update, the report generally includes:

(i) the Group's ESG compliance performance during the previous year;

(ii) the Group's ESG non-compliance during the previous year (if any) with reasons and factors causing such non-compliance;

(iii) recommendations and revised policies and guidelines on ESG compliance proposed by the Management (if any) for implementation for current year; and

(iv) the draft ESG report for inclusion in the Company's annual report.

The Directors then review the ESG update submitted by the Management at board meeting and take the following actions:

(i) making comments and recommendations (if any) on revised ESG policies and guidelines proposed by the Management;

(ii) raising new or unidentified ESG risks and compliance requirements that may have potential impact to the Group's operation and financial performance (if any);

(iii) dialogue with the Management on ESG and other related matters;

(iv) adopting the new ESG policies and guidelines set by the Management for implementation for current year; and

(v) approving the content of the ESG report for inclusion in the Company's annual report.

## SCOPE AND LIMITATION

The Group is principally engaged in property development, investment and management businesses and has investment property in Chongqing, Mainland China. As at 31 December 2023, the Group operated a shopping mall in Chongqing. The Group also maintained a corporate office in Hong Kong handling corporate, accounting and listing rules compliance matters. The total headcount of the Group was about 20 as at 31 December 2023.

Taking into account of relatively small operational scale and headcount of about 20, the Management has to balance the efforts and additional resources utilised for ESG management and its cost benefits and contributions to the communities.

The Management observes the principles of Materiality, Quantitative and Consistency as prescribed by Appendix 27 of the Listing Rules as far as practicable.

## ENVIRONMENTAL ASPECTS

### Emissions and Use of Resources

The Management has a good practice in implementing environmental friendly policies and observes, to a material extent, relevant laws and regulations about energy saving and environmental pollution imposed by the governmental bodies from time to time. For instance, being one of the ESG policies, all building and renovation materials, fixtures and furniture, electrical appliances replaced or newly installed are required to comply with the prevailing specifications and standards imposed by the relevant industrial institutions or governmental bodies.

This practice has been adopted by Guang Yu Square (港渝廣場) in Chongqing and Hong Kong corporate office for years.

The Management also implements sensible energy saving program and policies from time to time. For instance, most fluorescent tubes and tungsten light bulbs used in Guang Yu Square in Chongqing have been replaced with light emitting diode tubes and comparable energy saving lighting appliances a couple years ago. Due to the nature of its business, the Management perceives that hazardous waste and greenhouse gas emission (such as methane, nitrous oxide or sulphur hexafluoride) to be generated by shopping mall operation is minimal while water and fuel consumption waste is not a concern of shopping mall operation. There is limited energy saving lighting installed in the corporate office in Hong Kong because most lighting are provided by the landlord.

As shopping mall operator, the largest energy usage is the electricity charges for air-conditioning but not lighting. To reduce the electricity charges as well as carbon dioxide pollution, the Management has imposed strict temperature control policy for air-conditioning and ventilation operation in Guang Yu Square. The electricity charges for the corporate office in Hong Kong, however, cannot be reduced to a material extent because the air-conditioning system is in 24-hours operation present by the landlord. Given the Group has completed most of its energy saving program a couple of years ago, the Management anticipates that there will be little room for further reduction of air, greenhouse, gas and light emission for the year under review unless there are new technologies evolved.

## Environment, Natural Resources and Climate Change

The Management perceives that shopping mall operation will not have major hazard to the environment, natural resources and climate condition. No material non-compliance of environmental and pollution laws and regulations was reported in the past years. The Management considers that the Group's businesses are not sensitive to climate change (e.g. 2 degree Celsius scenario) and in particular the acute risks are remote and unlikely.

The Management, however, recognises that construction activities usually consume significant amount of resources and result in considerable amount of emissions and wastes.

The Management is also committed to earmarking funds to be raised under the Green Finance Framework to fund in whole or in part of "eligible projects" for the re-development project in Guangzhou.

"Eligible projects" include:

**Green Building** – acquisition, construction, re-development or renovation of commercial or residential buildings processing environmental certification from LEED (minimum gold grade) or a China Green Building Label (minimum two stars award).

**Energy Efficiency** – adoption of technologies, equipment and systems generating at least 10% improvement in energy efficiency or at 10% in energy reduction.

**Renewable Energy** – investment in solar power generation and solar water systems.

**Pollution Prevention and Control** – Expenditure relating wastewater treatment, dust pollution prevention and treatment, reduction, recycling and re-use of solid waste.

## SOCIAL ASPECTS

### Employment and Labour Standards

The Group only has headcount of about 20 and most staff have been serving the Group for over 20 years. Staff turnover rate was relatively low in the past. Given of such small workforce with long serving history and low staff turnover, it is not meaningful to provide gender and age analysis.

The Management values all employees and recognises their contributions, and is committed to establishing fair and caring relationship with its employees. It is admitted that the Group's remuneration package is non-competitive with those packages offered by conglomerates or multi-national enterprises, but it delivers a fair, comfortable, caring and enjoyable work place to its staff.

Other than statutory labour terms and benchmark staff benefits, the Group offers additional fringe benefits to its staff like paid maternity, paternity and funeral leave, paid study and elderly care leave and professional training, overtime allowance and compensation, flexible office hours, free travel packages and bulk purchase discount on selective commodities and health care program.

The Group does not encourage its staff working overtime or late. The Group also provides allowances and insurance coverage for staff who requires overseas or cross-border travel. In addition, the Management respects equal opportunities and family status of its staff. The Group never hired child, forced or illegal labour.

### Health and Safety

All premises under the Group's management do comply with the relevant building, fire, and environmental requirements imposed by the relevant laws and regulations from time to time. The Management conducts fire drill at Guang Yu Square and its corporate office in Hong Kong twice per year. No major fire hazard or industrial accident was reported during the year under review. Due to its business nature, the staff's exposure to occupational hazard is remote and unlikely.

The challenges arising from the COVID-19 pandemic in Mainland China and Hong Kong are unprecedented as the Group's shopping mall operation in Chongqing Mainland has temporary ceased business from time to time in compliance with state orders while most staff are restricted from travelling freely in Mainland China and cross border to and from Hong Kong during the year under review. In view of the severity of the pandemic, it is necessary and appropriate to accord priority of the health and safety of all personnel when performing their duties.

The Management respects staff's personal preference and piracy and does not impose compulsory COVID-19 vaccination policy to all staff but encourage them to carry out rapid antigen test or vaccination if necessary. Both offices in Mainland China and Hong Kong also set up health pickets (健康糾察) to disseminate latest COVID-19 related, health care and scientific information to its staff and immediate family members.

### Development and Training

The Management always encourages its staff to enroll professional, academic, vocational or healthcare related training courses. For instance, the Group sponsored its senior staff to enrol the Master of Corporate Governance Course offered by the Metropolitan University of Hong Kong. The Group offers paid study and exam leave for its staff.

The Management also organises in-house seminars and training courses for its directors and staff from time to time. The Group grants subsidy to its staff for attending external professional and vocational training courses should circumstances necessitate. Subject to relaxation of social distancing measures, the Management intends to offer high intensity interval training and yoga courses for its staff in Hong Kong this year.

### Supply Chain Management and Product Responsibility

Due to its business nature, the Group did not set up hard and fast rules for supply chain management and product responsibility. Alternatively, the Management always encourages its tenants and contractors to observe intellectual rights and product safety. The Management always respects fair trade contracts.

### Anti-Corruption and Anti-Money-Laundering

The Management has set up stringent house guidelines about ethics and honesty, bribery, extortion, fraud, money laundering, national security and terrorism. No suspected fraud, bribery, extortion or money laundering case was reported during the year under review.

### Community Investment

The Management always dedicates its staff and resources to serve the community by means of donations, sponsorship, volunteer services, and organizing “kai fong” events within the community. In Mainland China, governmental endorsement (or no objection) is essential for hosting “kai fong” events like “National Day Gala”, “Spring Festival Fire Crackers and Lion Dance Show” and “Free Distribution of Fortune Rice”.

As part of the civic and patriotic propaganda program, the Management always posts related posters and leaflets issued by the governmental bodies, and invites government officers to present civic and patriotic seminars in its premises. The Group also sponsors events and functions organised by local authorities.

## DIRECTORS

### Executive director

**Ho Kam Hung**, aged 68, has been appointed as the Managing Director since October 1997. Mr. Ho has over 30 years' experience in property investment and development, manufacturing, multinational trading and high-tech investments in Mainland China and Hong Kong. Mr. Ho has been enthusiastic in community services in Mainland China and is currently the Standing Committee of Guangdong Federation of Industry & Commerce (廣東省工商業聯合會(總商會)) as well as the vice presidents of Guangdong International Overseas Chinese Chamber of Commerce (廣東國際華商會) and Guangdong Chamber of Foreign Investors (廣東外商公會).

### Non-executive director

**Young Kwok Sui**, aged 65, was appointed as an independent non-executive Director in December 2002 and was re-designated as a non-executive Director in March 2006. He holds bachelor degrees in laws and commerce awarded by the University of Canterbury, New Zealand. He is also a solicitor and barrister of the High Court of New Zealand. He has over 30 years' professional and commercial experiences in finance, corporate strategies and property sector.

### Independent non-executive directors

**Tam Kong, Lawrence**, aged 79, was appointed in December 2005 as an independent non-executive Director. He is a seasoned banking and finance professional. He is a member of the Chartered Governance Institute (formerly known as *the Institute of Chartered Secretaries and Administrators*), the United Kingdom, and holds a Post-Graduate Diploma in Management Studies from the University of Hong Kong and has completed the Pacific Rim Bankers Program at the University of Washington, Seattle, the United States of America.

**Wong Miu Ting, Ivy**, aged 62, was appointed in December 2005 as an independent non-executive Director. She holds a Bachelor Degree in Accounting and Financial Management from Loughborough University, the United Kingdom. She is a Certified Public Accountant (Practising) of Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. Ms. Wong has over 30 years, experience in auditing and business advisory. She also has experience in initial public offerings of various companies and has been providing financial advisory services to listed companies in relation to accounting, internal control and financial matters.

**Wong Kui Fai**, aged 67, was appointed in November 2006 as an independent non-executive Director. He holds a Bachelor Degree in Actuarial Science from University of Kent, the United Kingdom. He has been in the information technology ("IT") field for over 30 years with regional exposure covering the Greater China region and the United States. He had served at senior management levels for a number of multinational e-commerce solutions corporations and IT investment companies with hands-on experience in operations, strategic planning and direct investments. Mr. Wong formerly was the General Manager of Microsoft Hong Kong Limited and is presently actively engaged in mergers and acquisitions of cross border IT investment projects. During the period from 24 September 2021 to 17 March 2022, Mr. Wong was an executive director of Winshine Science Company Limited which shares are listed on the Main Board of the Stock Exchange (stock code : 209).

# Independent Auditor's Report

EY安永

**To the shareholders of Zhong Hua International Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

## QUALIFIED OPINION

We have audited the consolidated financial statements of Zhong Hua International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 52 to 123, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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

## BASIS FOR QUALIFIED OPINION

As disclosed in notes 9 and 32(e) to the consolidated financial statements, the Group had undergone a very lengthy liquidation petition where the joint venture partner ("JV Partner") of a then subsidiary, namely 廣州市正大房地產開發有限公司 (Guangzhou Zheng Da Real Estate Development Company Limited) ("GZ Zheng Da", held by Zheng Da Real Estate Development Company Limited ("HK Zheng Da", a non-wholly owned subsidiary of the Group)), had filed to the court seeking for a liquidation of GZ Zheng Da in order to recover its entitled residual assets therein. During the year, a final court decision has been made which ordered GZ Zheng Da to be liquidated and a PRC law firm has been appointed as the liquidator. However, pursuant to the court order, the allocation and distribution of residual assets of GZ Zheng Da between the Group and the JV Partner was not determined, and is to be resolved via legal actions during the liquidation proceedings.

Due to the compulsory liquidation judgement of GZ Zheng Da in May 2023, the Group has lost control therein, and has deconsolidated GZ Zheng Da, resulting in a loss on derecognition amounting to HK$1,708,355,000 for the year ended 31 December 2023. As at 31 December 2023, the Group recorded its equity interest in GZ Zheng Da as a non-current financial asset and stated at fair value which amounted to HK$1,030,472,000. As further explained in these notes, other than the appointment of the liquidator, the legal actions surrounding the liquidation proceedings have not been substantively commenced. Accordingly, the determination of the allocation of the residual assets of GZ Zheng Da has not been concluded. Whilst the Group contends that HK Zheng Da has full entitlement to the residual assets pursuant to the joint venture agreements, there are potential legal risks that the JV Partner may claim part of the residual assets based on its basis of assets contribution (if any) in the past.

## BASIS FOR QUALIFIED OPINION (CONTINUED)

Due to the significant uncertainty of the outcome of the distribution of the residual assets upon liquidation, we were unable to obtain sufficient appropriate audit evidence to assess whether any additional residual assets should be allocated to the JV Partner, as at the date when GZ Zheng Da's control was lost, and as at 31 December 2023 (collectively, "dates of measurement") and, consequently, whether adjustments are necessary to the valuation of equity interest in GZ Zheng Da on the respective dates of measurement, which may impact the carrying amounts of the equity interest in an entity at fair value through profit or loss at 31 December 2023, the loss on derecognition of a then subsidiary, and the fair value changes in equity interest in an entity at fair value through profit or loss for the year ended 31 December 2023. Any adjustments as mentioned above found to be necessary would have a consequential effect on the Group's net assets as at 31 December 2023, its result for the year ended 31 December 2023 and the related elements making up the statement of changes in equity.

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Control assessment for HK Zheng Da | |
| As at 31 December 2023, the Group had a non-controlling interest of HK$687,285,000, which represented 75% of equity interest in HK Zheng Da. The assessment on whether the Group has control over HK Zheng Da as its subsidiary would significantly affect the Group's net asset value on consolidation basis. As at 31 December 2023, total assets contributed by HK Zheng Da to the Group represented 69% of the total assets of the Group.<br><br>The Group acquired 25% equity interest in HK Zheng Da in December 2007, and pursuant to an acquisition agreement pertaining to HK Zheng Da and related supplemental agreements executed thereafter (the latest of which was executed in June 2023), the Group had the currently exercisable right to acquire the remaining 75% equity interest at fixed consideration (which demonstrate that the other 75% shareholder is exposed to a fixed consideration and all variability related to the financial performance of HK Zheng Da belongs to the Group as the 25% shareholder) in HK Zheng Da anytime on or before 30 June 2024. In addition, a director of the Company and his associates, who are the beneficiary shareholders of the private company which holds the remaining 75% equity interest in HK Zheng Da and collectively are the largest shareholder of the Company, have given an undertaking to the Company that they will abide to all voting instructions proposed by the Group for all resolutions and decisions initiated and made at meetings of both shareholders and board of directors of HK Zheng Da. Accordingly, the Group has (i) power over HK Zheng Da; (ii) exposure or rights to variable returns from its involvement with HK Zheng Da; and (iii) ability to use its power over HK Zheng Da to affect the amount of its returns. | We performed procedures to assess the Group's control over HK Zheng Da by, among others, inquiring management, reviewing the related acquisition agreement and supplementary agreements, the minutes of HK Zheng Da and the undertaking given to the Company by the largest shareholder of HK Zheng Da. We also assessed the related disclosures in the consolidated financial statements. |

## KEY AUDIT MATTERS (CONTINUED)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Control assessment for HK Zheng Da (continued) | |
| On that basis, the directors of the Company considered it is appropriate to account for HK Zheng Da as a subsidiary of the Group. The control assessment is identified as a key audit matter as it involved significant management judgement and the amounts of assets and liabilities of HK Zheng Da consolidated in the Group's financial statements are material.<br><br>Related disclosures about the accounting judgement and the contractual arrangements with other beneficiary shareholders of HK Zheng Da are included in notes 3 and 32(c) to the consolidated financial statements. | |
| Fair value estimation of investment properties | |
| As at 31 December 2023, the aggregate fair value of the Group's investment properties was HK$369,600,000 which represented 25% of the Group's total assets. The estimation of fair value of investment properties requires management's significant judgement. Management, on an annual basis, commissions professional valuers to appraise the fair values of the Group's investment properties, and determines the fair value of these properties with reference to the valuation carried out by the professional valuers.<br><br>Related disclosures about the accounting estimation and the fair value measurement of investment properties are included in notes 3 and 14 to the consolidated financial statements. | We reviewed the objectivity, independence and expertise of the valuers commissioned by the Group and assessed the related data and assumptions being adopted, including unobservable inputs and other estimates, by comparing key valuation parameters including the capitalisation rate and unit price with market information. We involved our valuation specialists to assist us in reviewing the valuation methodologies and key valuation parameters on the fair value estimation of investment properties. We also assessed the disclosures relating to the assumptions used in determining the fair values in the consolidated financial statements. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chung Yuk Man.

**Ernst & Young**
*Certified Public Accountants*

27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong
28 June 2024

# Consolidated Income Statement

Year ended 31 December 2023

| | Notes | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| **REVENUE** | 5 | **28,363** | 30,283 |
| Other income and gains | | **377** | 786 |
| Changes in fair value of investment properties | 14 | **(52,304)** | 50,692 |
| Changes in fair value of equity interest in an entity at fair value through profit or loss | 7, 13 | **16,252** | – |
| Loss on derecognition of a then subsidiary | 7, 9 | **(1,708,355)** | – |
| Administrative expenses | | **(22,978)** | (25,302) |
| Finance costs | 6 | **(843)** | (1,509) |
| PROFIT/(LOSS) BEFORE TAX | 7 | **(1,739,488)** | 54,950 |
| Income tax expense | 10 | **(109,870)** | (20,900) |
| PROFIT/(LOSS) FOR THE YEAR | | **(1,849,358)** | 34,050 |
| Attributable to: | | | |
| Ordinary equity holders of the Company | | **(482,140)** | 3,273 |
| Non-controlling interests | | **(1,367,218)** | 30,777 |
| | | **(1,849,358)** | 34,050 |
| **EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | 11 | | |
| – Basic | | **HK cents (62.73)** | HK cents 0.46 |
| – Diluted | | **HK cents (62.73)** | HK cents 0.46 |

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2023

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| **PROFIT/(LOSS) FOR THE YEAR** | **(1,849,358)** | 34,050 |
| **OTHER COMPREHENSIVE INCOME/(EXPENSE)** | | |
| Other comprehensive income/(expense) that may be reclassified to the income statement in subsequent periods: | | |
| Exchange differences: | | |
| Exchange differences on translation of foreign operations | **(129,535)** | (242,675) |
| Reclassification adjustments for derecognition of a then subsidiary *(note 9)* | **20,469** | – |
| Net other comprehensive expense that may be reclassified to the income statement in subsequent periods | **(109,066)** | (242,675) |
| **TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR** | **(1,958,424)** | (208,625) |
| Attributable to: | | |
| Ordinary equity holders of the Company | **(498,156)** | (69,972) |
| Non-controlling interests | **(1,460,268)** | (138,653) |
| | **(1,958,424)** | (208,625) |

# Consolidated Statement of Financial Position

31 December 2023

| | Notes | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *12* | **3,551** | 3,460 |
| Equity interest in an entity at fair value through profit or loss | *13* | **1,030,472** | – |
| Investment properties | *14* | **369,600** | 4,274,112 |
| Total non-current assets | | **1,403,623** | 4,277,572 |
| **CURRENT ASSETS** | | | |
| Properties held for sale | | **–** | 29,315 |
| Trade receivables | *16* | **–** | 12,334 |
| Prepayments, deposits and other receivables | *17* | **2,222** | 11,864 |
| Cash and cash equivalents | *18* | **90,761** | 84,874 |
| Total current assets | | **92,983** | 138,387 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *19* | **(1,914)** | (2,075) |
| Other payables and accruals | *20* | **(26,987)** | (56,719) |
| Tax payable | | **(34,297)** | (78,559) |
| Total current liabilities | | **(63,198)** | (137,353) |
| **NET CURRENT ASSETS** | | **29,785** | 1,034 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,433,408** | 4,278,606 |
| **NON-CURRENT LIABILITIES** | | | |
| Loan from a director | *21* | **–** | (72,297) |
| Due to a director | *21* | **(148,183)** | (113,915) |
| Long term other payables | *20* | **(53,734)** | (146,003) |
| Deferred tax liabilities | *22* | **(168,392)** | (924,868) |
| Total non-current liabilities | | **(370,309)** | (1,257,083) |
| Net assets | | **1,063,099** | 3,021,523 |

# Consolidated Statement of Financial Position

31 December 2023

| | Notes | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | *23* | **19,215** | 17,840 |
| Reserves | *25* | **356,599** | 856,130 |
| | | **375,814** | 873,970 |
| **Non-controlling interests** | | **687,285** | 2,147,553 |
| Total equity | | **1,063,099** | 3,021,523 |

**Ho Kam Hung**
*Director*

**Young Kwok Sui**
*Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2023

| | Attributable to equity holders of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium account HK$'000 *(note 25)* | Share option reserve HK$'000 | Contributed surplus HK$'000 *(note 25)* | Exchange fluctuation reserve HK$'000 | Statutory reserve HK$'000 *(note 25)* | Other reserve HK$'000 *(note 25)* | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **At 1 January 2023** | **17,840** | **12,127** | **1,822** | **80,258** | **80,234** | **572** | **4,950** | **676,167** | **873,970** | **2,147,553** | **3,021,523** |
| **Exchange differences related to foreign operations** | **–** | **–** | **–** | **–** | **(36,485)** | **–** | **–** | **–** | **(36,485)** | **(93,050)** | **(129,535)** |
| **Reclassification adjustments for derecognition of a then subsidiary** *(note 9)* | **–** | **–** | **–** | **–** | **20,469** | **–** | **–** | **–** | **20,469** | **–** | **20,469** |
| **Loss for the year** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(482,140)** | **(482,140)** | **(1,367,218)** | **(1,849,358)** |
| **Total comprehensive expense for the year** | **–** | **–** | **–** | **–** | **(16,016)** | **–** | **–** | **(482,140)** | **(498,156)** | **(1,460,268)** | **(1,958,424)** |
| **Transfer from retained profits** | **–** | **–** | **–** | **–** | **–** | **237** | **–** | **(237)** | **–** | **–** | **–** |
| **Issuance of shares** *(note 23)* | **1,375** | **5,217** | **(1,642)** | **–** | **–** | **–** | **(4,950)** | **–** | **–** | **–** | **–** |
| **At 31 December 2023** | **19,215** | **17,344*** | **180*** | **80,258*** | **64,218*** | **809*** | **–*** | **193,790*** | **375,814** | **687,285** | **1,063,099** |
| At 1 January 2022 | 17,840 | 412,127 | – | 80,258 | 153,479 | – | – | 273,466 | 937,170 | 2,286,206 | 3,223,376 |
| Exchange differences related to foreign operations | – | – | – | – | (73,245) | – | – | – | (73,245) | (169,430) | (242,675) |
| Profit for the year | – | – | – | – | – | – | – | 3,273 | 3,273 | 30,777 | 34,050 |
| Total comprehensive income/(expense) for the year | – | – | – | – | (73,245) | – | – | 3,273 | (69,972) | (138,653) | (208,625) |
| Equity-settled share option arrangement *(note 24)* | – | – | 1,822 | – | – | – | – | – | 1,822 | – | 1,822 |
| Transfer from retained profits | – | – | – | – | – | 572 | – | (572) | – | – | – |
| Proceeds from exercise of share options | – | – | – | – | – | – | 4,950 | – | 4,950 | – | 4,950 |
| Share premium reduction | – | (400,000) | – | – | – | – | – | 400,000 | – | – | – |
| At 31 December 2022 | 17,840 | 12,127* | 1,822* | 80,258* | 80,234* | 572* | 4,950* | 676,167* | 873,970 | 2,147,553 | 3,021,523 |

* *These reserve accounts comprise the consolidated reserves of HK$356,599,000 (2022: HK$856,130,000) in the consolidated statement of financial position.*

# Consolidated Statement of Cash Flows

Year ended 31 December 2023

| | Notes | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before tax | | **(1,739,488)** | 54,950 |
| Adjustments for: | | | |
| Finance costs | *6* | **843** | 1,509 |
| Interest income | *7* | **(239)** | (601) |
| Depreciation of property, plant and equipment | *7* | **298** | 261 |
| Depreciation of right-of-use asset | *7* | **–** | 1,419 |
| Equity-settled share option expenses | *24* | **–** | 1,822 |
| Changes in fair value of investment properties | *7* | **52,304** | (50,692) |
| Changes in fair value of equity interest in an entity at fair value through profit or loss | *7* | **(16,252)** | – |
| Loss on derecognition of a then subsidiary | *7* | **1,708,355** | – |
| | | **5,821** | 8,668 |
| Decrease in properties held for sale | | **–** | 582 |
| Decrease in trade receivables | | **11,828** | 7,887 |
| Decrease/(increase) in prepayments, deposits and other receivables | | **(1,618)** | 560 |
| Increase/(decrease) in trade payables | | **(107)** | 113 |
| Increase in other payables and accruals | | **9,158** | 7,541 |
| Exchange differences on translation of foreign operations | | **(6)** | 1,299 |
| Cash generated from operations | | **25,076** | 26,650 |
| Interest received | | **239** | 601 |
| Interest paid | | **–** | (25) |
| Overseas taxes paid | | **(1,052)** | (770) |
| Net cash flows from operating activities | | **24,263** | 26,456 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of items of property, plant and equipment | | **(477)** | – |
| Derecognition of a then subsidiary | *9* | **(98)** | – |
| Net cash flows used in investing activities | | **(575)** | – |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from exercise of share options | *24* | **–** | 4,950 |
| Principal portion of lease payments | | **–** | (1,303) |
| Decrease in an amount due to a director | | **(15,634)** | (32,184) |
| Net cash flows used in financing activities | | **(15,634)** | (28,537) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **8,054** | (2,081) |
| Cash and cash equivalents at beginning of year | | **84,874** | 93,204 |
| Effect of foreign exchange rate changes | | **(2,167)** | (6,249) |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **90,761** | 84,874 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and cash equivalents as stated in the consolidated statement of financial position | | **90,761** | 84,874 |

## 1. CORPORATE INFORMATION

Zhong Hua International Holdings Limited (the "Company") was incorporated in Bermuda on 23 September 1997 as an exempted company with limited liability under the Bermuda Companies Act 1981.

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. During the year, the principal office of the Company in Hong Kong was located at Suite 2911, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Central, Hong Kong.

The principal activity of the Company has not changed during the year and was investment holding. The principal activities of the Company's subsidiaries are set out in note 32 to the financial statements. There were no significant changes in the nature of the principal activities of the subsidiaries during the year.

## 2. ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity interest in an entity at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

#### Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

## 2.1 BASIS OF PREPARATION (CONTINUED)

### Basis of consolidation (continued)

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

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| HKFRS 17 | *Insurance Contracts* |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | *Disclosure of Accounting Policies* |
| Amendments to HKAS 8 | *Definition of Accounting Estimates* |
| Amendments to HKAS 12 | *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* |
| Amendments to HKAS 12 | *International Tax Reform – Pillar Two Model Rules* |

The nature and the impact of the new and revised HKFRSs are described below:

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position.

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

(e) In June 2022, the Government of the Hong Kong Special Administrative Region gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022, following which the statutory right of an employer to offset severance payment and the long service payment by its mandatory contributions to the mandatory provident fund scheme ("MPF") will be abolished, effective on 1 May 2025. The issue itself is complex and there is no specific guidance in HKAS 19. In response to this, in July 2023, the HKICPA published a comprehensive guidance on the accounting for the impact arising from the abolition. The amendments did not have a material impact in Group's financial statements.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

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

1 Effective for annual periods beginning on or after 1 January 2024
2 Effective for annual periods beginning on or after 1 January 2025
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

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

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

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

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

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

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

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

## 2.4 MATERIAL ACCOUNTING POLICIES

### Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Investments in joint ventures (continued)

The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

### Business combinations and goodwill

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

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

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

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

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

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Business combinations and goodwill (continued)

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

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

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

### Fair value measurement

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

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

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

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Fair value measurement (continued)

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

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

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

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

### Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties and properties held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

### Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment and depreciation (continued)

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

| | |
|---|---|
| Buildings | 3% |
| Leasehold improvements | 20% |
| Equipment | 20% |
| Computer and office equipment, furniture and fixtures | 20% |
| Motor vehicles | 20% |

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Investment properties

Investment properties are interests in land and buildings (including right-of-use assets) held to earn income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

### Properties held for sale

Properties held for sale, consisting of completed properties intended for sale, are classified as current assets and are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other costs attributable to such properties. Net realisable value is determined by directors with reference to the prevailing market prices on an individual property basis.

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Leases

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

*Group as a lessee*

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

(a) Right-of-use assets

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

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

(b) Lease liabilities

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

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Leases (continued)

*Group as a lessee (continued)*

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

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

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

*Group as a lessor*

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

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

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

### Investments and other financial assets

*Initial recognition and measurement*

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

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (continued)

*Initial recognition and measurement (continued)*

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

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

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

*Subsequent measurement*

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

*Financial assets at amortised cost (debt instruments)*

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

*Financial assets at fair value through profit or loss*

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

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

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets

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

*General approach*

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

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

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

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets (continued)

*Simplified approach*

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

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### Derecognition of financial assets

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

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

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

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

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

### Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables.

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Financial liabilities (continued)

*Subsequent measurement*

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

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

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

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

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

### Derecognition of financial liabilities

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

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

### Offsetting of financial instruments

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Cash and cash equivalents

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

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

### Provisions

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

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

### Income tax

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

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

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

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

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

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Income tax (continued)

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

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

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

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

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

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

Dividend income derived from the Company's subsidiaries in Mainland China is subject to a withholding tax under the prevailing tax rules and regulations of the People's Republic of China (the "PRC").

### Government grants

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

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition

*Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

*Revenue from other sources*

Rental income is recognised on a time proportion basis over the lease terms.

*Other income*

Interest income 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 asset.

### Share-based payments

The Company operates a share option scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 24 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant dale fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### Other employee benefits

*Pension schemes*

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of these employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Employees of the Group's subsidiaries in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsides are required to make contributions for its eligible employees. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Borrowing costs

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

### Foreign currencies

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

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

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

The functional currencies of certain overseas subsidiaries and joint ventures are currencies other than Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 2.4 MATERIAL ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulation amount in the reserve relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Judgements

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

*Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independent of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

*Impairment of assets*

Management's judgement is required in the area of asset impairment, particularly in assessing whether: (1) an event has occurred that may affect asset values; (2) the carrying value of an asset can be supported by the net present value of future cash flows from the asset using estimated cash flow projections; and (3) the cash flow projections are discounted using an appropriate rate.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (continued)

*Income tax*

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

As explained in note 22 to the financial statements, withholding tax is levied on dividends to be distributed by subsidiaries and investee entities established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax is provided, at the applicable withholding tax rate, on the undistributed earnings of the Group's subsidiaries and investee entities in the PRC that would be distributed to their respective holding companies or investors outside Mainland China in the foreseeable future. Management makes assessment based on the factors which included the dividend policy and level of capital and working capital required for the Group's operations in the foreseeable future.

The Group's investment properties at fair value in Mainland China are all held to earn rental income and/or for capital appreciation and they are considered to be held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred tax on the Group's investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of the investment properties through use.

*Mainland China Land Appreciation Taxes ("LAT")*

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 amortization of land use rights, borrowing costs, business taxes and all property development expenditures. The is incurred upon transfer of property ownership.

The property development, investment and management business in Mainland China of the Group is subject to LAT. The Group has not yet finalised its LAT calculation and payments for certain sales of its properties with related tax authority and the deductibility of expenditures incurred is uncertain. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The Group recognises these liabilities based on management's best estimates with reference to the past experience, tax regulations and correspondences with local tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the consolidated financial statements in the period in which such determination is made.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (continued)

*Consolidation of entities in which the Group holds less than a majority of voting rights*

The Group acquired 25% equity interest in Zheng Da Real Estate Development Company Limited ("HK Zheng Da") and its then wholly-owned subsidiary, namely 廣州市正大房地產開發有限公司 (Guangzhou Zheng Da Real Estate Development Company Limited) ("GZ Zheng Da") (collectively the "Zheng Da Group") in December 2007, and pursuant to an acquisition agreement pertaining to the Zheng Da Group and related supplemental agreements executed thereafter (the latest during the year of which was executed on 30 June 2023), the Group had the currently exercisable right to acquire the remaining 75% equity interest in HK Zheng Da anytime on or before 30 June 2024. In addition, a director of the Company and his associates, who are the beneficiary shareholders of the private company which holds the remaining 75% equity interest in HK Zheng Da and collectively are the largest shareholder of the Company, have given an undertaking to the Company that they will abide to all voting instructions proposed by the Group for all resolutions and decisions initiated and made at meetings of both shareholders and board of directors of HK Zheng Da. Accordingly, the Group considers that it controls HK Zheng Da even though it owns less than 50% of voting rights because the Group has (i) power over HK Zheng Da; (ii) exposure or rights to variable returns from its involvement with HK Zheng Da; and (iii) the ability to use its power over HK Zheng Da to affect the amount of its returns. On that basis, the directors of the Company considered it is appropriate to account for HK Zheng Da as a subsidiary of the Group with effect from 17 December 2007, the date of completion of acquisition of 25% equity interest in HK Zheng Da. Further details are given in note 32(c) to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Estimation uncertainty

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

*Provision for expected credit losses on trade receivables*

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the financial statements.

*Fair value estimation of investment properties*

In the absence of current prices in an active market for comparable properties, management considers information from a variety of sources, including:

(a) reference to independent valuations;

(b) current prices in an active market for properties of a different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences; and

(c) recent prices of comparable properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices.

Further details, including the key assumptions used for fair value measurement and sensitivity analysis, are given in note 14 to the financial statements.

*Fair value measurement of equity interest in an entity at fair value through profit of loss*

At 31 December 2023, the equity interest in GZ Zheng Da is classified as equity interest in an entity at fair value through profit or loss and has been valued based on a discounted future cash flows as detailed in note 13 to the financial statements. The valuation requires the Group to determine several significant unobservable inputs. The Group classifies the fair value measurement of this equity interest at Level 3. Further details are contained in note 13 to the financial statements.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Estimation uncertainty (continued)

*Provision for legal dispute*

At 31 December 2023, the Group was subject to a potential legal claim in relation to disputes in specific assets allocation of GZ Zheng Da between the joint venture partners via the liquidation process of GZ Zheng Da. In determining whether part of the residual assets of GZ Zheng Da should be allocated to the PRC joint venture partner requires an estimation of probability that an outflow of resources embodying economic benefits is required for distributing the residual assets and an estimation of the amount of the obligation which can be measured reliably at the end of the reporting period. Except for those accounted for in the financial statements, no other allocation was considered necessary in the consolidated financial statements at the end of the reporting period. Disclosure of the dispute in respect of investment in GZ Zheng Da has been made in note 32 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has two reportable operating segments as follows:

(a) the property investment and development segment, which invests in properties for generating potential income from letting and sells properties located in Mainland China; and

(b) the corporate and others segment, which provides management services to group companies.

The management of the Group monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from operations. The adjusted profit/(loss) before tax from operations is measured consistently with the Group's profit/(loss) before tax from operations except that other income and gains and finance costs are excluded from such measurement. Segment assets exclude cash and bank balances as these assets are managed on a group basis. Segment liabilities exclude tax payable, deferred tax liabilities, a loan from a director and an amount due to a director as these liabilities are managed on a group basis.

Certain amounts in the segment liabilities at 31 December 2022 have been represented to conform with current year presentation.

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

| | Property investment and development | | Corporate and others | | Total | |
|---|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Segment revenue** *(note 5)* | | | | | | |
| Sales to external customers | **28,363** | 30,283 | **–** | – | **28,363** | 30,283 |
| **Segment results** | **(1,724,344)** | 71,161 | **(14,678)** | (15,488) | **(1,739,022)** | 55,673 |
| Other income and gains | | | | | **377** | 786 |
| Finance costs | | | | | **(843)** | (1,509) |
| Profit/(loss) before tax | | | | | **(1,739,488)** | 54,950 |
| Income tax expense | | | | | **(109,870)** | (20,900) |
| Profit/(loss) for the year | | | | | **(1,849,358)** | 34,050 |
| **Segment assets** | **1,405,505** | 4,331,007 | **340** | 78 | **1,405,845** | 4,331,085 |
| Unallocated assets | | | | | **90,761** | 84,874 |
| Total assets | | | | | **1,496,606** | 4,415,959 |
| **Segment liabilities** | **73,619** | 197,405 | **9,016** | 7,392 | **82,635** | 204,797 |
| Unallocated liabilities | | | | | **350,872** | 1,189,639 |
| Total liabilities | | | | | **433,507** | 1,394,436 |
| **Other segment information** | | | | | | |
| Depreciation of property, plant and equipment | **250** | 261 | **48** | – | **298** | 261 |
| Depreciation of right-of-use asset | **–** | – | **–** | 1,419 | **–** | 1,419 |
| Fair value loss/(gain) of investment properties | **52,304** | (50,692) | **–** | – | **52,304** | (50,692) |
| Fair value gain of equity interest in an entity at fair value through profit or loss | **(16,252)** | – | **–** | – | **(16,252)** | – |
| Loss on derecognition of a then subsidiary | **1,708,355** | – | **–** | – | **1,708,355** | – |
| Capital expenditure | **–** | – | **477** | – | **477** | – |

## 4. OPERATING SEGMENT INFORMATION (CONTINUED)

### Geographical information

Revenues are attributed to the segments based on the locations of the customers, and assets are attributed to the segments based on the locations of the assets. No geographical information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

### Information about major customer

Revenue from one customer which accounted for revenue exceeding 10% of Group's total revenues. Revenue from Customer A accounted for HK$28,363,000 (2022: HK$30,283,000) during the year ended 31 December 2023.

## 5. REVENUE

An analysis of revenue is as follows:

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Revenue from other sources | | |
| Income from letting of investment properties | **28,363** | 30,283 |

## 6. FINANCE COSTS

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Loan from a director | **843** | 1,484 |
| Lease liability *(note 35(b))* | **–** | 25 |
| Total | **843** | 1,509 |

## 7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Depreciation of property, plant and equipment *(note 12)* | **298** | 261 |
| Depreciation of right-of-use asset *(note 35(a))* | **–** | 1,419 |
| Lease payments not included in the measurement of lease liability *(note 35(c))* | **1,793** | 509 |
| Employee benefit expense (including directors' and chief executive's remuneration – *note 8*): | | |
| Wages and salaries# | **6,679** | 6,923 |
| Equity-settled share option expense | **–** | 964 |
| Pension scheme contributions## | **376** | 393 |
| Total | **7,055** | 8,280 |
| Auditor's remuneration | **1,920** | 1,860 |
| Bank interest income | **(239)** | (601) |
| Changes in fair value of investment properties *(note 14)* | **52,304** | (50,692) |
| Changes in fair value of equity interest in an entity at fair value through profit or loss *(note 13)* | **(16,252)** | – |
| Loss on derecognition of a then subsidiary *(note 9)* | **1,708,355** | – |
| Equity-settled share option expense for share options granted to business associates | **–** | 858 |

\# Government subsidy from employment support scheme of HK$96,000 in Hong Kong was included in administrative expenses, on the face of the consolidated income statement for the year ended 31 December 2022. There were no unfulfilled conditions or contingencies relating to this subsidy.

\## At 31 December 2023, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2022: Nil).

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (the "Stock Exchange") (collectively the "Listing Rules"), Section 383 (1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | Directors' fees HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Equity-settled share option expense HK$'000 | Pension scheme contributions HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **2023** | | | | | |
| **Executive Director** | | | | | |
| Ho Kam Hung* | **2,400** | **–** | **–** | **36** | **2,436** |
| **Non-executive Director** | | | | | |
| Young Kwok Sui | **282** | **–** | **–** | **–** | **282** |
| **Independent Non-executive Directors** | | | | | |
| Tam Kong, Lawrence | **166** | **–** | **–** | **–** | **166** |
| Wong Miu Ting, Ivy | **166** | **–** | **–** | **–** | **166** |
| Wong Kui Fai | **166** | **–** | **–** | **–** | **166** |
| Subtotal | **498** | **–** | **–** | **–** | **498** |
| Total | **3,180** | **–** | **–** | **36** | **3,216** |
| 2022 | | | | | |
| **Executive Director** | | | | | |
| Ho Kam Hung* | 2,400 | – | 252 | 36 | 2,688 |
| **Non-executive Director** | | | | | |
| Young Kwok Sui | 282 | – | – | – | 282 |
| **Independent Non-executive Directors** | | | | | |
| Tam Kong, Lawrence | 166 | 13 | – | – | 179 |
| Wong Miu Ting, Ivy | 166 | 13 | – | – | 179 |
| Wong Kui Fai | 166 | 13 | – | – | 179 |
| Subtotal | 498 | 39 | – | – | 537 |
| Total | 3,180 | 39 | 252 | 36 | 3,507 |

* Ho Kam Hung is the Managing Director of the Company, which has a similar capacity as a chief executive officer of the Company.

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (CONTINUED)

The Executive Director of the Company is the key management personnel of the Group.

During the year ended 31 December 2022, a director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which were set out in note 24 to the financial statements. The fair value of such options, which had been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year ended 31 December 2022 was included in the above directors' and chief executive's remuneration disclosures.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

## 9. DERECOGNITION OF A THEN SUBSIDIARY

In late June 2023, the Group acknowledged that the Rescission Order (撤銷駁回裁定) (as defined in note 32(e)) as further detailed in note 32(e) was issued by the Guangdong Province Higher People's Court (廣東省高級人民法院) (the "Guangdong Court") on 15 May 2023 to the effect of granting the New Liquidation Order (as defined in note 32(e)) against GZ Zheng Da by the Guangdong Province Guangzhou Municipal Intermediate People's Court (廣東省廣州市中級人民法院) (the "Guangzhou Court") on 7 August 2023. Accordingly, the board of directors considered that the Group lost the control over GZ Zheng Da under HKFRS 10 *Consolidated Financial Statements* on 15 May 2023 and GZ Zheng Da was derecognised as a then subsidiary and the equity interest in GZ Zheng Da was then classified as financial asset at fair value through profit or loss and was included as "Equity interest in an entity at fair value through profit or loss" on the consolidated statement of financial position.

| | HK$'000 |
|---|---|
| *Net assets of GZ Zheng Da:* | |
| Investment properties *(note 14)* | 3,672,000 |
| Properties held for sale | 28,018 |
| Cash and cash equivalents | 98 |
| Trade receivables | 259 |
| Prepayments, deposits and other receivables | 10,744 |
| Other payables and accruals | (35,147) |
| Tax payable | (45,361) |
| Due to a director *(note 26(c))* | (21,001) |
| Long term other payables | (86,805) |
| Deferred tax liabilities *(note 22)* | (820,699) |
| Subtotal | 2,702,106 |
| Release of exchange fluctuation reserve | 20,469 |
| | 2,722,575 |
| Loss on derecognition of a then subsidiary *(notes 7 and (a))* | (1,708,355) |
| Satisfied by: | |
| Equity interest in an entity at fair value through profit or loss *(note 13)* | 1,014,220 |

## 9. DERECOGNITION OF A THEN SUBSIDIARY (CONTINUED)

An analysis of the net outflow of cash and cash equivalents in respect of the derecognition of a then subsidiary is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | – |
| Cash and cash equivalents disposed of | (98) |
| Net outflow of cash and cash equivalents in respect of derecognition of a then subsidiary | (98) |

*Note:*

(a) A significant loss on derecognition of a then subsidiary was resulted mainly because of the differences between the fair value of the equity interest in GZ Zheng Da and the original carrying amounts of respective assets and liabilities of GZ Zheng Da.

The fair value of the equity interest in GZ Zheng Da was determined based on discounted net realisation value (i.e., discounted cash flow method from realisation of assets and settlement of liabilities of GZ Zheng Da). In determining the fair value of the equity interest in GZ Zheng Da, the board of directors had taken into account (i) the fair values of the underlying major assets with repossession discount and liabilities of GZ Zheng Da; (ii) relevant expenses, payments and tax for disposals of the assets, in particular, the properties, according to the prevailing tax rules and other relevant law and regulations; (iii) the timing to recover the investment; and (iv) the discount rate.

## 10. INCOME TAX

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Current – Mainland China | | |
| Corporate income tax | | |
| Charge for the year | 5,114 | 5,805 |
| Deferred *(note 22)* | 104,756 | 15,095 |
| Total tax charge for the year | 109,870 | 20,900 |

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2022: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. The subsidiaries established in Mainland China are subject to income taxes at a tax rate of 25% (2022: 25%).

## 10. INCOME TAX (CONTINUED)

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax at the statutory tax rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Profit/(loss) before tax | **(1,739,488)** | 54,950 |
| Tax at the statutory tax rate | **(289,849)** | 15,007 |
| Expenses not deductible for tax | **6,253** | 5,893 |
| Loss on derecognition of a then subsidiary | **281,879** | – |
| Fair value gain of equity interest in an entity at fair value through profit or loss | **(2,682)** | – |
| Effect of withholding tax at 10% on the distributable profits of a PRC entity | **114,269** | – |
| Tax charge at the Group's effective rate | **109,870** | 20,900 |

### Pillar Two income taxes

As stated in note 2.2(d), the Group has applied the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities arising from Pillar Two income taxes, and will account for the Pillar Two income taxes as current tax when incurred. Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Group operates, and the legislation will be effective for the Group's financial year beginning 1 January 2024.

The Group has assessed its potential exposure based on the information available regarding the financial performance of the Group in the current year. As such, it may not be entirely representative of future circumstances. Based on the assessment, the Group's effective tax rates in all jurisdictions in which it operates are above 15% and the directors of the Company are not currently aware of any circumstances under which they might change. Therefore, the Group does not expect potential exposure to Pillar Two "top-up" taxes.

## 11. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss (2022: earnings) per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of HK$482,140,000 (2022: profit for the year attributable to ordinary equity holders of the Company of HK$3,273,000), and the number of ordinary shares of 768,616,520 (2022: 713,767,205) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2023.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2022 in respect of a dilution as the impact of the share options did not have a dilution effect on the basic earnings per share amount presented.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Equipment HK$'000 | Computer and office equipment, furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **2023** | | | | | | |
| **At cost:** | | | | | | |
| **At 1 January 2023** | **9,167** | **558** | **473** | **383** | **4,443** | **15,024** |
| **Addition** | **–** | **–** | **–** | **–** | **477** | **477** |
| **Write-off** | **–** | **–** | **–** | **–** | **(3,980)** | **(3,980)** |
| **Derecognition of a then subsidiary** | **–** | **–** | **(18)** | **–** | **(6)** | **(24)** |
| **Exchange realignment** | **(245)** | **(5)** | **(8)** | **(5)** | **(12)** | **(275)** |
| **At 31 December 2023** | **8,922** | **553** | **447** | **378** | **922** | **11,222** |
| **Accumulated depreciation:** | | | | | | |
| **At 1 January 2023** | **5,707** | **558** | **473** | **383** | **4,443** | **11,564** |
| **Provided during the year** | **250** | **–** | **–** | **–** | **48** | **298** |
| **Derecognition of a then subsidiary** | **–** | **–** | **(18)** | **–** | **(6)** | **(24)** |
| **Write-off** | **–** | **–** | **–** | **–** | **(3,980)** | **(3,980)** |
| **Exchange realignment** | **(157)** | **(5)** | **(8)** | **(5)** | **(12)** | **(187)** |
| **At 31 December 2023** | **5,800** | **553** | **447** | **378** | **493** | **7,671** |
| **Net book value:** | | | | | | |
| **At 31 December 2023** | **3,122** | **–** | **–** | **–** | **429** | **3,551** |
| 2022 | | | | | | |
| At cost: | | | | | | |
| At 1 January 2022 | 9,898 | 575 | 497 | 397 | 4,480 | 15,847 |
| Exchange realignment | (731) | (17) | (24) | (14) | (37) | (823) |
| At 31 December 2022 | 9,167 | 558 | 473 | 383 | 4,443 | 15,024 |
| Accumulated depreciation: | | | | | | |
| At 1 January 2022 | 5,885 | 575 | 497 | 397 | 4,480 | 11,834 |
| Provided during the year | 261 | – | – | – | – | 261 |
| Exchange realignment | (439) | (17) | (24) | (14) | (37) | (531) |
| At 31 December 2022 | 5,707 | 558 | 473 | 383 | 4,443 | 11,564 |
| Net book value: | | | | | | |
| At 31 December 2022 | 3,460 | – | – | – | – | 3,460 |

## 13. EQUITY INTEREST IN AN ENTITY AT FAIR VALUE THROUGH PROFIT OR LOSS

The movements of the carrying amount of the Group's equity interest in GZ Zheng Da during the year are as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Financial asset at fair value through profit or loss | | |
| *Unlisted equity interest in an entity at fair value through profit or loss, at fair value:* | | |
| Carrying amount at 1 January | – | – |
| Derecognition of a then subsidiary *(note 9)* | 1,014,220 | – |
| Changes in fair value recognised in the income statement *(note 7)* | 16,252 | – |
| Carrying amount at 31 December | 1,030,472 | – |

Management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved at least once a year or more frequently as needed.

The fair value of the Group's equity interest in an entity at fair value through profit or loss is estimated by using significant unobservable inputs. The fair value measurement is categorised under Level 3. On date of derecognition of a then subsidiary and 31 December 2023, the fair values were determined based on discounted net realisation value (i.e., discounted cash flow method from realisation of assets and settlement of liabilities of GZ Zheng Da) which have taken into account (1) the fair values of the underlying assets and liabilities of GZ Zheng Da; (2) relevant expenses, payments and tax upon disposals of the assets, in particular, the properties, according to the prevailing tax rules and other relevant law and regulations; and (3) five year periods to recover the investment. The discount rate applied to the cash flow projections is 4.2%. Increase in the discount rate by 1% would result in decrease in its fair value as at 31 December 2023 by approximately HK$48,055,000. Decrease in the discount rate by 1% would result in increase in its fair value as at 31 December 2023 by approximately HK$50,903,000.

Independent qualified valuers, Vigers Appraisal and Consulting Limited ("Vigers") and Merryshine Surveyors Limited, were engaged to assist management in the process to estimate the fair values of underlying investment properties and properties held for sale of the entity, respectively, based on recent market transactions and repossession discount. In estimating the fair values of these properties, the valuers assume the current use is the highest and best use of these properties. In addition, management also has taken professional advices, including but not limited to legal advisors and other professional parties, as necessary, and follows their advices in the process of preparation of the above expected future cash flow assessment.

The directors believe that the estimated fair values resulting from the above valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in consolidated income statement, are reasonable, and that they were the most appropriate values at the end of the reporting period.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2022: Nil).

## 13. EQUITY INTEREST IN AN ENTITY AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Below is a summary of the valuation techniques used and the key inputs to the valuation of key underlying assets of GZ Zheng Da:

| | Valuation techniques | Significant unobservable inputs | Weighted average/ range of unobservable inputs 2023 | 2022 |
|---|---|---|---|---|
| Investment properties | Residual approach | Unit price per square metre | **HK$43,466** | – |
| | | Developer's profit per square metre | **HK$9,357** | – |
| | | Estimated cost to complete per square metre | **HK$5,242** | – |
| | | Repossession discount | **25%** | – |
| Properties held for sale | Market approach | Unit price per square metre | **HK$13,860 to HK$15,620** | – |
| | | Repossession discount | **25%** | – |

Under the residual approach, fair value is estimated on the basis of the gross development value of the investment properties by reference to their development potential deducting various costs, such as constructions cost, contingency cost, finance cost, marketing cost and professional fees that will be expended to complete the development as well as the developer's profit, to reflect the risks associated with the development of the investment property and the quality of the completed development. The gross development value is arrived at by making reference to the sales transactions or asking price evidence of comparable properties as available in the market with adjustments made to account for any differences and where appropriate.

Under the market approach, fair value is estimated based on comparing the property to be valued directly with other comparable properties, which have been recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

Repossession discount is then applied to the fair value of the properties under both methods which is the price adjustment that might reasonably be expected to realise within a specified period from the sale of a property in the market under repossession on an "as is" basis.

## 14. INVESTMENT PROPERTIES

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Carrying amount at 1 January | **4,274,112** | 4,561,214 |
| Changes in fair value recognised in the income statement *(note 7)* | **(52,304)** | 50,692 |
| Derecognition of a then subsidiary *(note 9)* | **(3,672,000)** | – |
| Exchange realignment | **(180,208)** | (337,794) |
| Carrying amount at 31 December | **369,600** | 4,274,112 |

## 14. INVESTMENT PROPERTIES (CONTINUED)

At 31 December 2023 and 2022, the Group's investment property comprises a commercial property in Chongqing. At 31 December 2022, the Group's investment properties also included properties under development in Guangzhou, the PRC. With reference to the nature, characteristics and risk of these properties, management determined that these properties should be classified as investment properties.

The Group's investment property located in Chongqing, the PRC, was revalued on 31 December 2023 with reference to the valuations performed by Savills Valuation and Professional Services Limited ("Savills"), independent qualified valuer, at RMB336,000,000, equivalent to HK$369,600,000.

The Group's investment properties located in Chongqing and Guangzhou, the PRC, were revalued on 31 December 2022 with reference to the valuations performed by Savills and Vigers at RMB342,400,000, equivalent to HK$386,912,000, and RMB3,440,000,000, equivalent to HK$3,887,200,000, respectively.

Management commissions qualified valuers to appraise the fair values of the Group's investment properties on an annual basis. Selection criteria for external valuers include market knowledge, reputation, independence and professional standards. Management also discusses with the valuers on the valuation assumptions and methodologies. In estimating the fair values of the properties, the valuers assume the current use is the highest and best use of these properties.

### Fair value hierarchy

The fair values of the Group's investment properties as at 31 December 2023 and 2022 are estimated by using significant unobservable inputs and the fair value measurements are categorised under Level 3.

| | Chongqing, the PRC HK$'000 | Guangzhou, the PRC HK$'000 |
|---|---|---|
| **Carrying amount at 1 January 2023** | **386,912** | **3,887,200** |
| **Changes in fair value recognised in the income statement** | **(7,104)** | **(45,200)** |
| **Derecognition of a then subsidiary** | **–** | **(3,672,000)** |
| **Exchange realignment** | **(10,208)** | **(170,000)** |
| **Carrying amount at 31 December 2023** | **369,600** | **–** |
| Carrying amount at 1 January 2022 | 425,414 | 4,135,800 |
| Changes in fair value recognised in the income statement | (7,308) | 58,000 |
| Exchange realignment | (31,194) | (306,600) |
| Carrying amount at 31 December 2022 | 386,912 | 3,887,200 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2022: Nil).

## 14. INVESTMENT PROPERTIES (CONTINUED)

### Fair value hierarchy (continued)

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

| Class of property | Valuation techniques | Significant unobservable inputs | Weighted average of unobservable inputs | |
|---|---|---|---|---|
| | | | **2023** | 2022 |
| Chongqing, the PRC – Commercial properties, completed | Income capitalisation approach | Capitalisation rate per annum *(note 1)* | **8%** | 8% |
| Guangzhou, the PRC – Commercial properties, under development | Residual approach | Unit price per square metre *(note 2)* | **–** | HK$39,999 |
| | | Developer's profit per square metre *(note 3)* | **–** | HK$5,547 |
| | | Estimated cost to complete per square metre *(note 4)* | **–** | HK$10,789 |

*Notes:*

1. The higher the capitalisation rate per annum, the lower the fair value
2. The higher the unit price per square metre, the higher the fair value
3. The higher the developer's profit per square metre, the lower the fair value
4. The higher the estimated cost to complete per square metre, the lower the fair value

Under the income capitalisation approach, fair value is estimated on the basis of capitalisation of estimated market rentals for the unexpired land use term. The estimated market rentals of the investment properties are assessed and capitalised at a market yield expected by investors for this type of property. The market rentals are assessed by reference to the rentals achieved in the lettings of similar properties in the neighbourhood. The market yield, which is the capitalisation rate adopted, is made by reference to the yields derived from analysing the sales transactions of similar properties and adjusted to take account of the valuers' knowledge of the market expectation from property investors to reflect factors specific to the Group's investment properties.

Under the residual approach, fair value is estimated on the basis of the gross development value of the investment properties by reference to their development potential deducting various costs, such as construction cost, contingency cost, finance cost, marketing cost and professional fees that will be expensed to complete the development as well as the developer's profit, to reflect the risks associated with the development of the investment property and the quality of the completed development. The gross development value is arrived at by making reference to the sales transactions or asking price evidence of comparable properties as available in the market with adjustments made to account for any differences and where appropriate.

## 15. INVESTMENTS IN JOINT VENTURES

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Share of net assets | – | – |

Particulars of the Group's joint ventures are as follows:

| Name | Business structure | Place of incorporation and business | Percentage of: Ownership interest | Voting power | Profit sharing | Principal activity |
|---|---|---|---|---|---|---|
| I-Mall Investments Limited | Corporate | British Virgin Islands ("BVI") | 68.6 | 33.3 | 68.6 | Dormant |
| B2B Market Investments Limited | Corporate | BVI | 35.0 | 33.3 | 35.0 | Dormant |

All of the above investments in joint ventures are directly held by I-Action Agents Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company.

The Group has discontinued the recognition of its share of losses of I-Mall Investments Limited and B2B Market Investments Limited because the share of losses of these joint ventures exceeded the Group's interests in the joint ventures and the Group has no obligation to take up further losses. At 31 December 2023, the amount of the Group's unrecognised share of losses of these joint ventures was cumulatively HK$8,614,000 (2022: HK$8,614,000).

## 16. TRADE RECEIVABLES

An ageing analysis of the trade receivables at the end of the reporting period is as follows:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | HK$'000 | Percentage | HK$'000 | Percentage |
| Within 6 months | – | – | 12,334 | 100 |

## 16. TRADE RECEIVABLES (CONTINUED)

The Group generally grants a credit term of 3 months to 12 months to its customer.

The ageing of the Group's trade receivables is based on the date of recognition of revenue. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

At 31 December 2022, the Group had a high concentration of credit risk that arose from the exposure to one customer which accounted for 100% of the Group's total trade receivables.

The Group has applied the simplified approach to provide impairment of ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group considers the historical loss rate and adjusts for forward-looking information in calculating the expected credit loss rate. As at 31 December 2023, the Group estimated the expected loss rate of trade receivables was minimal and no ECL allowance (2022: Nil) in respect of these balances was made.

## 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Prepayments | **20** | 20 |
| Deposits and other receivables | **2,202** | 11,844 |
| Total | **2,222** | 11,864 |

None of the above deposits and other receivables was either past due or impaired at 31 December 2023 and 2022. The financial assets included in the above balances relate to deposits and other receivables for which there was no recent history of default.

On 15 March 2023, Ho Kam Hung, a director of the Company, indemnified the Company from any losses arising from an other receivable of RMB9,706,000 (equivalent to HK$10,968,000) ("Other Receivable"), which was included in "Deposits and other receivables" above as at 31 December 2022. The indemnity covered the period from 1 January 2023 to 31 December 2023.

Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 31 December 2023, the Group estimated the loss rate of these balances was minimal and no impairment (2022: Nil) in respect of these balances was made.

## 18. CASH AND CASH EQUIVALENTS

At the end of the reporting period, total cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$87,249,000 (2022: HK$77,630,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent publicly-known record of default.

## 19. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period is as follows:

| | **2023** | | 2022 | |
|---|---|---|---|---|
| | **HK$'000** | **Percentage** | HK$'000 | Percentage |
| More than 1 year | **1,914** | **100** | 2,075 | 100 |

The ageing of the Group's trade payables is based on the dates of the goods received or services rendered. The trade payables are non-interest-bearing.

## 20. OTHER PAYABLES AND ACCRUALS

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Other payables | **44,708** | 145,995 |
| Accrued deferred interest on the Remaining Tranches in relation to the Acquisition *(note 32(c))* | **25,837** | 25,837 |
| Other accruals | **10,176** | 30,890 |
| Total | **80,721** | 202,722 |
| Less: Current portion | **(26,987)** | (56,719) |
| Non-current portion | **53,734** | 146,003 |

The balances of other payables and accruals are non-interest-bearing and have no fixed terms of repayment, except for an amount of HK$53,734,000 (2022: HK$146,003,000) which is not repayable before 31 May 2025. Subsequent to 31 December 2023, the repayment dates of these long term payables of HK$53,734,000 were further extended to 31 August 2025.

## 21. BALANCES WITH A DIRECTOR

The loan from a director, which was unsecured and bears interest at 2% (2022: 2%) per annum, was due to Ho Kam Hung, a director of the Company. It was reclassified to balance due to a director during the year ended 31 December 2023 (note 26(c)).

As at 31 December 2023, the balance due to a director (the "Balance"), which is unsecured and interest-free, is due to Ho Kam Hung, a director of the Company. Ho Kam Hung has undertaken to the Company not to demand repayment of the Balance until the Group is able to generate sufficient cash inflows to meet its daily working capital requirement and in any event such repayment request will not be made on or before 31 May 2025 and, accordingly, the Balance is included under non-current liabilities. Subsequent to the end of the reporting period, on 20 June 2024, Ho Kam Hung extends his undertaking to the Company to 31 August 2025.

## 22. DEFERRED TAX

The movements in deferred tax liabilities/(assets) during the year were as follows:

### Deferred tax liabilities

| | Fair value adjustments on investment properties | | Others | | Withholding taxes on equity interest in an entity at fair value through profit or loss | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 | **2023** | 2022 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At 1 January | **925,978** | 986,400 | **7,628** | 6,518 | **–** | – | **933,606** | 992,918 |
| Deferred tax charged/(credited) to the income statement during the year *(note 10)* | **(13,076)** | 12,672 | **1,574** | 1,634 | **114,269** | – | **102,767** | 14,306 |
| Derecognition of a then subsidiary *(note 9)* | **(827,054)** | – | **(96)** | – | **–** | – | **(827,150)** | – |
| Exchange realignment | **(39,583)** | (73,094) | **(218)** | (524) | **(1,030)** | – | **(40,831)** | (73,618) |
| Gross deferred tax liabilities at 31 December | **46,265** | 925,978 | **8,888** | 7,628 | **113,239** | – | **168,392** | 933,606 |

## 22. DEFERRED TAX (CONTINUED)

### Deferred tax assets

| | LAT | | Temporary differences of accruals | | Total | |
|---|---|---|---|---|---|---|
| | **2023 HK$'000** | 2022 HK$'000 | **2023 HK$'000** | 2022 HK$'000 | **2023 HK$'000** | 2022 HK$'000 |
| At 1 January | **(2,523)** | (2,724) | **(6,215)** | (7,380) | **(8,738)** | (10,104) |
| Deferred tax charged to the income statement during the year *(note 10)* | **–** | – | **1,989** | 789 | **1,989** | 789 |
| Derecognition of a then subsidiary *(note 9)* | **2,412** | – | **4,039** | – | **6,451** | – |
| Exchange realignment | **111** | 201 | **187** | 376 | **298** | 577 |
| Gross deferred tax assets at 31 December | **–** | (2,523) | **–** | (6,215) | **–** | (8,738) |

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

| | **2023 HK$'000** | 2022 HK$'000 |
|---|---|---|
| Net deferred tax liabilities recognised in the consolidated statement of financial position | **168,392** | 924,868 |

The Group has tax losses arising in Hong Kong of HK$156,000 (2022: HK$156,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in group companies that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax, is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. At 31 December 2023, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of subsidiaries of the Group established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. At 31 December 2023, the aggregate amount of temporary differences associated with these subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$339,926,000 (2022: HK$1,012,870,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 23. SHARE CAPITAL

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| Authorised: | | |
| 4,000,000,000 (2022: 4,000,000,000) ordinary shares of HK$0.025 (2022: HK$0.025) each | **100,000** | 100,000 |
| Issued and fully paid: | | |
| 768,616,520 (2022: 713,616,520) ordinary shares of HK$0.025 (2022: HK$0.025) each | **19,215** | 17,840 |

A summary of movements in the Company's share capital is as follows:

| | Number of shares in issue | Share capital<br>HK$'000 |
|---|---|---|
| At 1 January 2022, 31 December 2022 and 1 January 2023 | 713,616,520 | 17,840 |
| Shares issued | 55,000,000 | 1,375 |
| At 31 December 2023 | 768,616,520 | 19,215 |

On 9 January 2023, 55,000,000 shares were issued and allotted to the option holders for cash at a subscription price of HK$0.09 per share pursuant to the exercise of the share options as detailed in notes 24 and 25 to the financial statements. Amounts of HK$4,950,000 and HK$1,642,000 are transferred from other reserve and share option reserve to share capital and share premium of HK$1,375,000 and HK$5,217,000, respectively.

## 24. SHARE OPTION SCHEME

The Company's share option scheme was adopted on 19 December 2012 (the "Scheme").

The purposes of the Scheme are to: (a) provide a way of recognition of the contributions or services or expected contributions or services of employees, executive and non-executive directors and others; (b) strengthen the relationships between the Group and its employees and directors and others; (c) attract and retain high quality employees and executives and providers of goods and services; and (d) motivate eligible participants to assist in the development and expansion of the Group.

The eligible participants are any executives or non-executive directors or employees (full-time or part-time) of any member of the Group and any other persons whether or not employees (full-time or part-time) or directors of any member of the Group who, in the sole discretion of the board of directors of the Company (the "Board"), have contributed or are likely to contribute to the Group.

## 24. SHARE OPTION SCHEME (CONTINUED)

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board and may commence and end on any dates as determined by the Board but shall in any event end not later than 10 years from the date upon which the share option is granted.

The exercise price of the share options is determinable by the Board, but must be at least the highest of (1) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (2) the average of the closing prices of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (3) the par value of the Company's shares.

There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options. The Group accounts for the Scheme as an equity-settled plan.

The movements in the Company's share options during the years were as follows:

| | **Exercise price** HK$ per share | **Number of options** '000 |
|---|---|---|
| At 1 January 2022 | – | – |
| Granted during the year | 0.09 | 60,000 |
| Exercised during the year | 0.09 | (55,000) |
| At 31 December 2022, 1 January 2023 and 31 December 2023 *(note)* | 0.09 | 5,000 |

*Note:* The exercise period of the share options outstanding at the end of the reporting period is from 2 December 2022 to 1 December 2025. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues or other similar changes in the Company's share capital.

## 24. SHARE OPTION SCHEME (CONTINUED)

The weighted average share price immediately before the date(s) of exercise for share options exercised during the year ended 31 December 2022 was HK$0.082 per share.

The fair value of the share options granted during the year ended 31 December 2022 of HK$1,822,000 (HK$0.33 each) was recognised a share option expense of HK$1,822,000 during the year ended 31 December 2022.

The fair value of equity-settled share options granted during the year ended 31 December 2022 was estimated as at the date of grant using a binomial model. The following table listed the inputs to the model used:

| | |
|---|---|
| Dividend yield *(%)* | – |
| Expected volatility *(%)* | 65 |
| Risk-free interest rate *(%)* | 3.814 |
| Expected life of options *(year)* | 3 |
| Share price *(HK$ per share)* | 0.085 |

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

55,000,000 share options exercised during the year ended 31 December 2022 resulted in the issue of 55,000,000 ordinary shares of the Company and raising new capital of HK$4,950,000 (before issue expenses), as further detailed in note 25 to the financial statements. These ordinary shares were issued on 9 January 2023, as further detailed in note 23 to the financial statements.

At as 31 December 2023, the Company had 5,000,000 share options outstanding under the Scheme. Exercise in full of the remaining share options, under present capital structure of the Company, would result in the issue of 5,000,000 additional ordinary shares of the Company and raising additional capital of HK$450,000 (before issue expenses).

The Scheme lapsed on 18 December 2022 but the outstanding share options would remain exercisable pursuant to the terms of the Scheme.

## 25. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

### Share premium account

A special resolution was passed at the annual general meeting of the Company held on 14 June 2022 to the effect of cancelling an amount of HK$400,000,000 standing to the credit of share premium account of the Company and the entire credit amount arising from such cancellation to offsetting the equivalent debit amount of accumulated losses of the Company.

Further details were disclosed in the circular of the Company dated 11 May 2022 and the announcement of the Company dated 14 June 2022.

## 25. RESERVES (CONTINUED)

### Share option reserve

The share option reserve comprises the value of share options granted which are yet to be exercised or exercised not yet capitalised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to share capital when the related options are exercised and the respective shares are issued, or be transferred to retained profits should the related share options expire or be forfeited.

### Contributed surplus

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor.

### Statutory reserve

In accordance with the relevant regulations applicable in the PRC, the subsidiaries of the Company established in the PRC are required to transfer a certain percentage of their profits after tax, if any, to the statutory reserve funds, which are non-distributable, before profit distributions to shareholders.

### Other reserve

The balance at 31 December 2022 represented proceeds received from exercise of share options but the respective shares have yet been issued. Pursuant to the terms of the Scheme, the latest time for issue of new shares should be within 10 business days from the date upon receipt of subscription monies from the option holders.

## 26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

(i) During the year ended 31 December 2023, interest on a loan from a director, Ho Kam Hung, of HK$843,000 (2022: HK$1,484,000) was settled through the balance due to a director.

(ii) During the year ended 31 December 2023, a director fee of HK$2,400,000 (2022: HK$2,400,000) included in accruals were settled through the balance due to a director.

### (b) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within operating activities | **(1,793)** | (534) |
| Within financing activities | **–** | (1,303) |
| Total | **(1,793)** | (1,837) |

## 26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

### (c) Changes in liabilities from financing activities

| | Loan from a director HK$'000 | Due to a director HK$'000 | Long term other payables HK$'000 |
|---|---|---|---|
| At 1 January 2023 | 72,297 | 113,915 | 146,003 |
| Changes in financing cash flows | – | (15,634) | – |
| Foreign exchange movement | (1,279) | (3,358) | (4,744) |
| Derecognition of a then subsidiary *(note 9)* | – | (21,001) | (86,805) |
| Reclassification *(note 21)* | (71,018) | 71,018 | – |
| Interest expenses *(note 6) (note (a)(i))* | – | 843 | – |
| Reclassification to current other payable | – | – | (720) |
| Accruals *(note (a)(ii))* | – | 2,400 | – |
| At 31 December 2023 | – | 148,183 | 53,734 |

| | Lease liability HK$'000 | Loan from a director HK$'000 | Due to a director HK$'000 | Long term other payables HK$'000 |
|---|---|---|---|---|
| At 1 January 2022 | 1,303 | 78,056 | 149,036 | 140,763 |
| Changes in financing cash flows | (1,303) | – | (32,184) | – |
| Foreign exchange movement | – | (5,759) | (6,821) | (8,724) |
| Interest expenses *(note 6)* *(note (a)(i))* | 25 | – | 1,484 | – |
| Interest paid classified as operating cash flows | (25) | – | – | – |
| Accruals *(note (a)(ii))* | – | – | 2,400 | – |
| Reclassification from current other payable | – | – | – | 13,964 |
| At 31 December 2022 | – | 72,297 | 113,915 | 146,003 |

## 27. CONTINGENT LIABILITIES

Save as disclosed elsewhere in the financial statements, at the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

| | 2023 HK$'000 | 2022 HK$'000 |
|---|---|---|
| Guarantees given for mortgage loans granted by banks to certain purchasers of the Group's properties | 139 | 139 |

## 28. COMMITMENTS

At 31 December 2022, the Group had contracted, but not provided for, commitments in respect of construction works and design costs relating to investment properties amounting to approximately HK$1,478,000 in total.

## 29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### Financial assets

| | Financial assets at amortised cost | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| Trade receivables | **–** | 12,334 |
| Financial assets included in prepayments, deposits and other receivables | **2,202** | 11,844 |
| Cash and cash equivalents | **90,761** | 84,874 |
| Total | **92,963** | 109,052 |

| | Financial assets at fair value through profit or loss | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| *Designated as such upon initial recognition* | | |
| Equity interest in an entity at fair value through profit or loss | **1,030,472** | – |

### Financial liabilities

| | Financial liabilities at amortised cost | |
|---|---|---|
| | **2023** | 2022 |
| | **HK$'000** | HK$'000 |
| Trade payables | **1,914** | 2,075 |
| Financial liabilities included in other payables and accruals | **22,091** | 30,689 |
| Loan from a director | **–** | 72,297 |
| Due to a director | **148,183** | 113,915 |
| Long term other payables | **53,734** | 146,003 |
| Total | **225,922** | 364,979 |

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise loan from a director, lease liability and cash and bank balances. The Group has various other financial assets and liabilities such as trade and other receivables, trade payables, other payables and accruals and amount due to a director, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Credit risk

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December:

| | 2023 | | | | |
|---|---|---|---|---|---|
| | 12-month ECLs | Lifetime ECLs | | | |
| | Stage 1 HK$'000 | Stage 2 HK$'000 | Stage 3 HK$'000 | Simplified approach HK$'000 | Total HK$'000 |
| **Financial assets included in prepayments, deposits and other receivables** | | | | | |
| **– Normal**** | **2,202** | **–** | **–** | **–** | **2,202** |
| **Cash and cash equivalents** | | | | | |
| **– Not yet past due** | **90,761** | **–** | **–** | **–** | **90,761** |
| **Total** | **92,963** | **–** | **–** | **–** | **92,963** |

| | 2022 | | | | |
|---|---|---|---|---|---|
| | 12-month ECLs | Lifetime ECLs | | | |
| | Stage 1 HK$'000 | Stage 2 HK$'000 | Stage 3 HK$'000 | Simplified approach HK$'000 | Total HK$'000 |
| Trade receivables* | – | – | – | 12,334 | 12,334 |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal** | 11,844 | – | – | – | 11,844 |
| Cash and cash equivalents | | | | | |
| – Not yet past due | 84,874 | – | – | – | 84,874 |
| Total | 96,718 | – | – | 12,334 | 109,052 |

* For trade receivables to which the Group applies the simplified approach for impairment, information is disclosed in note 16 to the financial statements.

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Credit risk (continued)

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. The directors of the Company have reviewed the Group's working capital and capital expenditure requirements and determined that the Group has no significant liquidity risk.

The maturity profile of the financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

| | 2023 | | |
|---|---|---|---|
| | **On demand or within 1 year HK$'000** | **1 to 5 years HK$'000** | **Total HK$'000** |
| **Trade payables** | **1,914** | **–** | **1,914** |
| **Financial liabilities included in other payables and accruals** | **22,091** | **–** | **22,091** |
| **Due to a director** | **–** | **151,888** | **151,888** |
| **Long term other payables** | **–** | **55,077** | **55,077** |
| **Total** | **24,005** | **206,965** | **230,970** |

| | 2022 | | |
|---|---|---|---|
| | On demand or within 1 year HK$'000 | 1 to 5 years HK$'000 | Total HK$'000 |
| Trade payables | 2,075 | – | 2,075 |
| Financial liabilities included in other payables and accruals | 30,689 | – | 30,689 |
| Loan from a director | – | 73,787 | 73,787 |
| Due to a director | – | 113,915 | 113,915 |
| Long term other payables | – | 146,318 | 146,318 |
| Total | 32,764 | 334,020 | 366,784 |

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and bank balances and equity attributable to equity holders of the Company, which comprises share capital and reserves as detailed in the consolidated statement of changes in equity.

The Group monitors capital using a gearing ratio, which are a loan from a director and an amount due to a director divided by total assets. The gearing ratios as at the end of the reporting periods were as follows:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Loan from a director | **–** | 72,297 |
| Due to a director | **148,183** | 113,915 |
| | **148,183** | 186,212 |
| Total non-current assets | **1,403,623** | 4,277,572 |
| Total current assets | **92,983** | 138,387 |
| Total assets | **1,496,606** | 4,415,959 |
| Gearing ratio | **0.10** | 0.04 |

## 31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

| | 2023<br>HK$'000 | 2022<br>HK$'000 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Investments in subsidiaries | 290,218 | 290,218 |
| Due from subsidiaries | 20,446 | 176,146 |
| Total non-current assets | 310,664 | 466,364 |
| **CURRENT ASSETS** | | |
| Deposits and other receivables | 18 | 18 |
| Cash and bank balances | 1,044 | 77 |
| Total current assets | 1,062 | 95 |
| **CURRENT LIABILITIES** | | |
| Other payables and accruals | (5,317) | (4,490) |
| Tax payable | (1,148) | (1,148) |
| Total current liabilities | (6,465) | (5,638) |
| **NET CURRENT LIABILITIES** | (5,403) | (5,543) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 305,261 | 460,821 |
| **NON-CURRENT LIABILITIES** | | |
| Long term other payables | (27,141) | (27,861) |
| Due to a director | (23,646) | (21,246) |
| Total non-current liabilities | (50,787) | (49,107) |
| Net assets | 254,474 | 411,714 |
| **EQUITY** | | |
| Share capital | 19,215 | 17,840 |
| Reserves *(note)* | 235,259 | 393,874 |
| Total equity | 254,474 | 411,714 |

## 31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

*Note:*

A summary of the Company's reserves is as follows:

| | Share premium account HK$'000 | Contributed surplus HK$'000 | Share option reserve HK$'000 | Other reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1 January 2023** | **12,127** | **547,326** | **1,822** | **4,950** | **(172,351)** | **393,874** |
| **Loss and total comprehensive expense for the year** | **–** | **–** | **–** | **–** | **(157,240)** | **(157,240)** |
| **Issuance of shares** *(note 23)* | **5,217** | **–** | **(1,642)** | **(4,950)** | **–** | **(1,375)** |
| **At 31 December 2023** | **17,344** | **547,326** | **180** | **–** | **(329,591)** | **235,259** |
| At 1 January 2022 | 412,127 | 547,326 | – | – | (557,905) | 401,548 |
| Loss and total comprehensive expense for the year | – | – | – | – | (14,446) | (14,446) |
| Equity-settled share option arrangement *(note 24)* | – | – | 1,822 | – | – | 1,822 |
| Proceeds from exercise of share options *(note 24)* | – | – | – | 4,950 | – | 4,950 |
| Share premium reduction *(note 25)* | (400,000) | – | – | – | 400,000 | – |
| At 31 December 2022 | 12,127 | 547,326 | 1,822 | 4,950 | (172,351) | 393,874 |

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1997, over the nominal value of the Company's shares issued in exchange therefor. Under the Bermuda Companies Act 1981, the Company may make distributions to its members out of the contributed surplus under certain circumstances.

## 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued and fully paid share/ registered capital | Percentage of equity attributable to the Company 2023 | 2022 | Principal activities |
|---|---|---|---|---|---|
| **Directly held** | | | | | |
| China Land Realty Investment (BVI) Limited | BVI/Hong Kong | US$11,204 Ordinary | **100** | 100 | Investment holding |
| **Indirectly held** | | | | | |
| Chongqing Smart Hero Real Estate Development Company Limited ("CQ Smart Hero") | PRC/Mainland China | US$2,000,000 Registered capital *(Note a)* | 100 | 100 | Property investment and management |
| Smart Hero (Holdings) Limited | Hong Kong | HK$2 Ordinary, HK$300 Non-voting deferred *(Note b)* | 100 | 100 | Investment holding |
| Proland International Technology Limited | Hong Kong | HK$2 Ordinary | 100 | 100 | Investment holding |
| 廣州遠朋天成電子科技有限公司 | PRC/Mainland China | HK$1,500,000 Registered capital *(Note a)* | 100 | 100 | Inactive |
| HK Zheng Da | Hong Kong | HK$4 Ordinary *(Note c)* | 25 | 25 | Investment holding |
| GZ Zheng Da | PRC/Mainland China | RMB150,000,000 Registered capital *(Notes a, d and e)* | – | 25 | Property development, investment and management |

The above table lists the subsidiaries of the Company at 31 December 2023 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

*Notes:*

a. CQ Smart Hero, 廣州遠朋天成電子科技有限公司 and GZ Zheng Da are wholly-foreign-owned enterprises established in the PRC.

b. The non-voting deferred shares carry no rights to dividends, to receive notice of or to attend or vote at any general meeting of the subject company, or to participate in any distribution on winding-up.

c. The Group entered into a conditional sale and purchase agreement on 9 October 2007 (as amended on 26 October 2007) (the "Acquisition Agreement") with two private companies (the "Vendors") to acquire the entire equity interest in HK Zheng Da (the "Acquisition"). The acquisition of the entire equity interest in HK Zheng Da was to be completed in four tranches. The first tranche was completed on 17 December 2007 and, as a result, the Group acquired a 25% equity interest in HK Zheng Da. According to the Acquisition Agreement and related supplementary agreements executed thereafter (the latest during the year of which was executed on 30 June 2023), the Group had the currently exercisable right to acquire the remaining 75% equity interest in HK Zheng Da anytime on or before 30 June 2024 as further discussed below. In addition, a director of the Company and his associates, who are the beneficiary shareholders of the private company, which holds the remaining 75% equity interest in HK Zheng Da and collectively is the largest shareholder of the Company, have given an undertaking to the Company that they will abide to all voting instructions proposed by the Group for all resolutions and decisions initiated and made at meetings of both shareholders and board of directors of HK Zheng Da. Accordingly, the Group has (i) power over HK Zheng Da; (ii) exposure or rights to variable returns from its involvement with HK Zheng Da; and (iii) ability to use its power over HK Zheng Da to affect the amount of its returns. On this basis, the directors of the Company considered it is appropriate to account for HK Zheng Da as a subsidiary of the Group with effect from 17 December 2007, the date of completion of acquisition of 25% equity interest in HK Zheng Da.

   In accordance with the Acquisition Agreement, the second, third and fourth tranches (the "Remaining Tranches") had to be completed on or before 31 May 2008, 31 October 2008 and 31 March 2009, respectively. Should the Remaining Tranches not be completed according to the dates specified above, a deferred interest would be incurred which was calculated based on a rate of 4% per annum on the relevant consideration based on the period from the relevant completion date of each tranche as mentioned above and ending on and excluding the day when the relevant consideration was settled by the Company or 31 March 2009, whichever the earlier. At the end of the reporting period and up to the date of this report, the completion of the Remaining Tranches remained outstanding and the accrued aggregated deferred interest in aggregate of HK$25,837,000 (note 20) remained unsettled.

   During the current reporting period, the Company entered into an extension agreement on 28 June 2023 to extend the completion of the Remaining Tranches from 30 June 2023 to 30 June 2024. No deferred interest was required for this period of extension. Subsequent to the end of the reporting period, the Company entered into an extension agreement on 24 June 2024 to extend the completion of the Remaining Tranches from 30 June 2024 to 30 June 2026. Further details were disclosed in note 37(b) to the financial statements.

## 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

*Notes: (continued)*

d. Pursuant to the terms of the relevant joint venture agreement, HK Zheng Da is entitled to all of the profits and bears all of the losses of GZ Zheng Da.

e. Liquidation Petition against GZ Zheng Da

*The Liquidation Dismissal Order*

In May 2021, GZ Zheng Da received a written judgement from the Guangzhou Court. The written judgement granted an order to the effect that the "Liquidation Petition" pleaded by 廣州市越秀房地產開發經營有限公司 ("Yuefang PE") was turned down (駁回強制清算申請裁定) (the "Liquidation Dismissal Order (清算駁回裁定)") on the ground that "the two joint venture parties had major disputes whether GZ Zheng Da had been dissolved, regarding major assets of, and interests in, the subject company, and such disputes had never been ascertained by trial or arbitration (雙方對於廣州正大是否發生解散事由、公司主要財產以及公司權益尚有較大爭議，且爭議至今未經訴訟或者仲裁予以確認)".

In the Liquidation Dismissal Order,

(i) the Guangzhou Court ascertained that GZ Zheng Da remained "in operation (在業)" and HK Zheng Da held 100% equity interest in GZ Zheng Da. This statement affirmed that GZ Zheng Da, the appellee (被清算企業), remained undissolved and Yuefang PE, the applicant (清算呈請人), was not qualified to plead for compulsory liquidation in the capacity as an equity holder of GZ Zheng Da as at the date of plead (清算呈請日); and

(ii) as the ruling was not derived from an appeal lodged by the appellee, it indicated that the Guangzhou Court rectified (自糾) its earlier decision on appointing the liquidator (清算組) for GZ Zheng Da and admitted that such decision made was, among other things, not in accordance with then prevailing compulsory liquidation law and regulations for GZ Zheng Da.

Yuefang PE submitted an appeal against the Liquidation Dismissal Order at the Guangdong Court as permissible by law in August 2021. The appeal was heard at the Guangdong Court in January 2022. Ruling was made in May 2023, details of which are disclosed below.

## 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

*Notes: (continued)*

e. Liquidation Petition against GZ Zheng Da (continued)

*The Claim Dismissal Order*

In July 2021, GZ Zheng Da received a written judgement from the Guangdong Court. The written judgement granted an order (the "Claim Dismissal Order (索償駁回裁定)") to the effect that the pleads made by Yuefang PE were all turned down and the pleads included, but not limited to:

(i) requesting the court to affirm the Sino-foreign co-operative joint venture agreement executed between GZ Zheng Da and 廣州市越秀房地產開發經營公司 ("Yuefang SoE") in 1993 be expired and terminated on 31 December 2008;

(ii) requesting the court to affirm all remaining assets of GZ Zheng Da (primarily two parcels of land situated in Yuexiu District, Guangzhou) be allocated to Yuefang PE but not HK Zheng Da via liquidation procedures; and

(iii) demanding HK Zheng Da to pay Yuefang PE RMB450 million as the possession fee of land use rights (土地使用權佔用費) owned by GZ Zheng Da for the period from 1 January 2009 up to 30 September 2017.

The ruling was made based on the grounds, in brief, that "the pleads constituted double jeopardy and were against the relevant provisions of the Companies Law of The People's Republic of China (the "Companies Law (公司法)"), and Yuefang PE was not the owner of the land use rights of the subject land in dispute with any kinds of right and hence was not the qualified litigant (訴求構成重覆起訴，亦不符合《中華人民共和國公司法》相關規定，而越房私企並非涉案地塊土地使用權的所有權人因而不具起訴主體資格).

In the Claim Dismissal Order, the Guangdong Court ascertained that Yuefang PE was not the owner of the subject land registered under the name of GZ Zheng Da with any kind of right (土地所有權人), which included, but not limited to, right of possession, use, income or disposition.

In December 2021, the Guangdong Court issued the Certificate of Verdict Validity (裁判文書生效證明) confirming the Claim Dismissal Order had become legally effective from 2 August 2021.

## 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

*Notes: (continued)*

e. Liquidation Petition against GZ Zheng Da (continued)

*The Rescission Order*

In June 2023, GZ Zheng Da received a written judgement from the Guangdong Court. The written judgement granted an order to the effect that (i) the Liquidation Dismissal Order granted by the Guangzhou Court was rescinded (予以撤銷); and (ii) the Guangzhou Court was ordered to proceed the case (指令廣州市中院審理本案) (the "Rescission Order (撤銷駁回裁定)").

In the Rescission Order, the Guangdong Court concurred with the facts testified by the Guangzhou Court (對廣州市中院查明的事實予以確認) but was of the view that "the equity partners of GZ Zheng Da should disband in accordance with the liquidation procedures given their conflicts were significant and the co-operative objective had lapsed for a prolonged period as well as the operational management had been in deadlock. The joint venture partners should proceed legal actions via the liquidation procedures to solve mutual disputes in specific assets allocation in accordance with their respective joint venture interests (廣州正大的股東之間矛盾分歧重大，合作目的早已落空，公司經營管理陷入僵局，應當通過清算程序有序退出。合作雙方對於合作權益具體分配等事項的相關爭議，應在公司清算程序中遁法律途徑解決)".

Taking into account the facts and legal grounds substantiated, and the opinion given by the PRC legal counsel and advisers of the Group, the directors of the Company remain optimistic in obtaining a favourable judgement if and when such potential disputes in specific assets allocation in accordance with the respective joint venture partners' interests were brought to legal actions during the liquidation process.

Whilst the Group, as substantiated by competent PRC legal advice, contends that HK Zheng Da shall have 100% entitlement to the residual assets of GZ Zheng Da under liquidation pursuant to the terms of the joint venture agreement of GZ Zheng Da (and as amended by supplemental agreements) and relevant PRC laws, there remains potential legal risk that Yuefang PE may claim for part of the residual assets of GZ Zheng Da based on its basis of assets contribution (if any) made in the past.

However, the related proceedings were not yet commenced up to the date of approval of the consolidated financial statements, which might lead to uncertainties on the extent and financial impact arising from such disputes (if taken place) on the consolidated financial statements of the Group.

## 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

*Notes: (continued)*

e. Liquidation Petition against GZ Zheng Da (continued)

*The New Liquidation Notice*

It appeared to the Company's attention that, inter alia, a public notice pertaining to the compulsory liquidation of Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司強制清算公告) was posted by a third party named as "the Liquidator Group of Guangzhou Zheng Da Real Estate Development Company Limited (廣州市正大房地產開發有限公司清算組)" (the "New Liquidation Notice") in a public domain in Mainland China in August 2023. In the said notice, it was mentioned that the Guangzhou Court had appointed Guangdong Jinzhen Law Firm (廣東金圳律師事務所) (the "New Liquidator") as the liquidator of GZ Zheng Da (the "New Liquidation Order (新清算決定)") pursuant to a plead made by Yuefang PE and a directive (指令) granted by the Guangdong Court.

Following the issue of a receivership notice (接管公告) in September 2023, neither notice was further issued nor further action was taken by the New Liquidator. The name of liquidator filed on the public corporate website of GZ Zheng Da remained as Guangdong Guoding Law Firm (廣東國鼎律師事務所), the former liquidator which should suspend its duties once the Liquidation Dismissal Order (清算駁回裁定) was granted in May 2021, but not Guangdong Jinzhen Law Firm (廣東金圳律師事務所), the New Liquidator.

*Current Status of GZ Zheng Da*

The registration status (登記狀態) of GZ Zheng Da per the official record registered at the Guangzhou Municipal Administration for Market Regulation (廣州市市場監督管理局) remained as "Enterprise in Operation (in Business) (在營(開業))" as to-date and Ho Kam Hung, an executive director of the Company, had been retaining as the authorised representative since its establishment in 1993.

Notwithstanding the New Liquidation Order is in force, GZ Zheng Da's operation is as usual and the demolition permit (房屋拆遷許可證) was renewed in December 2023 (renewable annually) to the effect that GZ Zheng Da was permitted to continue the demolition and relocation till December 2024. The re-development site was leased to a third party for licensed carpark operation. Further details of the re-development plan of GZ Zheng Da are disclosed in the section headed "Property Development" as disclosed in the heading named "Management Discussion and Analysis" in the Company's annual report for the year ended 31 December 2023.

## 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

| | **2023** | 2022 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests | **75%** | 75% |

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| Profit/(loss) for the year allocated to non-controlling interests | **(1,367,218)** | 30,777 |
| Dividends paid to non-controlling interests | **–** | – |
| Exchange differences on translation of foreign operation | **(93,050)** | (169,430) |
| Accumulated balances of non-controlling interests at the reporting date | **687,285** | 2,147,553 |

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

| | **2023** **HK$'000** | 2022 HK$'000 |
|---|---|---|
| Profit/(loss) for the year | **(1,822,957)** | 41,036 |
| Total comprehensive expense for the year | **(1,947,024)** | (184,871) |
| Current assets | **787** | 238,918 |
| Non-current assets | **1,030,472** | 3,887,223 |
| Current liabilities | **(1,640)** | (82,817) |
| Non-current liabilities | **(113,239)** | (1,179,920) |
| Net cash flows from operating activities | **23,898** | 12,017 |
| Net cash flows used in financing activities | **(24,042)** | (12,169) |
| Net decrease in cash and cash equivalents | **(144)** | (152) |

## 33. LITIGATIONS

In October 2013, the former Guangzhou Administration of Natural Resources and Property Bureau (前廣州市國土資源和房屋管理局) issued two rulings on property demolition (房屋拆遷決定書) (the "Compensation Rulings") to GZ Zheng Da pertaining to two resettlement and compensation cases for property demolition (房屋拆遷補償安置個案). The Compensation Rulings concluded that GZ Zheng Da was liable to pay a one-off cash compensation in an aggregate amount of approximately RMB27,600,000 (the "Cash Compensation") to a group of nine claimants (the "Claimants").

In March 2014, the Guangzhou Municipal People's Government (廣州市人民政府) (the "Guangzhou Government") issued two rulings on administrative review (行政覆議決定書) revoking the Compensation Rulings. As a result, GZ Zheng Da's obligation to pay the Cash Compensation was discharged.

In June 2015, the Guangzhou Court issued two rulings on administrative proceedings (行政裁定書) declining the appeal made by the Claimants against the Guangzhou Government's rulings.

In December 2015, the Guangdong Court issued two rulings on administrative proceedings (行政裁定書) to the effect that (i) the Guangzhou Court's rulings were rescinded; and (ii) the Guangzhou Court was ordered to re-hear the Claimants' appeal against the Guangzhou Government's rulings.

In May 2017, the Guangzhou Railway & Transportation Intermediate Court (廣州鐵路運輸中級法院) (the "Railway Court"), which was primarily engaged in cases pertaining to land and property disputes and under the direction of the Guangdong Court, re-heard the case and declined the appeal made by the Claimants against the Guangzhou Government's rulings. The Claimants then filed a further appeal against the Railway Court's rulings (the "Second Appeal").

The Second Appeal was set aside by the Claimants. Alternatively, at the request of the Claimants, the Guangzhou Municipal Urban and Rural Bureau of Construction (廣州市住房和城鄉建設局) (the "Urban Bureau of Construction") re-heard the cases and issued two revised rulings (the "Revised Compensation Rulings") in 2021. Pursuant to the Revised Compensation Rulings, it was ruled that, inter alia, GZ Zheng Da was liable to pay an one-off cash compensation in an aggregate amount of approximately RMB18,500,000 plus accrued interests to the Claimants.

In April 2021, the Claimants instituted a plead at the Railway Court against the Urban Bureau of Construction and demanded for higher interest rate for accrued interest computation. In July 2021, GZ Zheng Da served another writ of summons at the Railway Court pleading, inter alia, for rescission of the Revised Compensation Rulings and denial of the pleads made by the Claimants.

## 33. LITIGATIONS (CONTINUED)

The Railway Court consolidated the two summons and made rulings in October 2021 and declined all pleads raised by both GZ Zheng Da and the Claimants.

Both GZ Zheng Da and the Claimants instituted same pleads for appeal (the "Settlement Appeal") at the Guangdong Court thereafter and the Settlement Appeal was not yet heard up to the date of approval of these financial statements.

The case did not have progress during the period from 31 March 2022 up to the date of derecognition of GZ Zheng Da.

Taking into account the facts and legal grounds substantiated, and the opinion given by the PRC legal counsel and advisers, the Company remains optimistic in obtaining a favourable judgement in the Settlement Appeal.

## 34. RELATED PARTY TRANSACTIONS

In addition to the guarantee, related party transactions and balances with related parties as detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

(a) The Group also incurred an interest expense of HK$843,000 (2022: HK$1,484,000) in respect of a loan from a director, Ho Kam Hung, during the year. Details of a loan from a director were disclosed in note 21 to the financial statements.

(b) A license fee of HK$1,793,000 (2022: HK$458,000) was incurred by a subsidiary of the Company for the rights to use the office (without exclusivity) in Hong Kong on a cost basis from a company owned by an executive director of the Company. As at 31 December 2023, an amount due to the related company of HK$1,438,000 (2022: HK$458,000) was included in "Other payables and accruals" on the consolidated statement of financial position.

The above transaction constitutes a continuing connected transaction as defined in Chapter 14A of the Listing Rules and its details are disclosed in the report of the directors. The directors are of the opinion that the transaction was conducted in the ordinary course of business of the Group.

## 35. LEASES

### The Group as a lessee

The Group had a lease contract for an office premise in Hong Kong used in its operations. It had a lease term of 2 years. The lease was further discussed below:

*(a)* *Right-of-use asset*

The carrying amount of the Group's right-of-use asset and the movements during the year were as follows:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| As at 1 January | – | 1,419 |
| Depreciation charge *(note 7)* | – | (1,419) |
| As at 31 December | – | – |

*(b)* *Lease liability*

The carrying amount of lease liability and the movements during the year are as follows:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Carrying amount at 1 January | – | 1,303 |
| Accretion of interest recognised during the year *(note 6)* | – | 25 |
| Payments | – | (1,328) |
| Carrying amount at 31 December | – | – |

*(c)* The amounts recognised in income statement in relation to the lease were as follows:

| | **2023** | 2022 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on lease liability | – | 25 |
| Depreciation charge of right-of-use asset | – | 1,419 |
| Expense relating to short-term leases (included in administrative expenses) *(note 7)* | **1,793** | 509 |
| Total amount recognised in income statement | **1,793** | 1,953 |

*(d)* The total cash outflow for lease was disclosed in note 26(b) to the financial statements.

## 35. LEASES (CONTINUED)

### The Group as a lessor

The Group leases its investment properties (note 14) consisting of one commercial property (2022: two) in the PRC under operating lease arrangements with a term of one year (2022: one year). The terms would provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was HK$28,979,000 (2022: HK$30,283,000), details of which are included in note 5 to the financial statements.

At the end of the reporting period, the Group had no undiscounted lease payments receivable in future periods under non-cancellable operating leases with its tenants.

## 36. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2022: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2022: three) highest paid employees who are neither a director nor chief executive of the Company for the year are as follows:

| | **2023**<br>**HK$'000** | 2022<br>HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **1,534** | 1,398 |
| Equity-settled share option expense | **–** | 155 |
| Pension scheme contributions | **57** | 42 |
| Total | **1,591** | 1,595 |

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

| | **Number of employees** | |
|---|---|---|
| | **2023** | 2022 |
| Nil to HK$1,000,000 | **3** | 3 |

During the year ended 31 December 2023, no emoluments were paid by the Group to the non-director and non-chief executive highest paid employees as an inducement to join or upon joining the Group, or as compensation for loss of office.

During the year ended 31 December 2022, share options were granted to a non-director and non-chief executive highest paid employee in respect of his service to the Group, further details of which were included in the disclosures in note 24 to the financial statements. The fair value of such options, which had been recognised in the income statement over the year ended 31 December 2022 was included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

## 37. EVENTS AFTER THE REPORTING PERIOD

(a) In April 2024, HK Zheng Da filed a writ at the Guangzhou Court to the effect, inter alia, that:

(i) to ascertain if 廣州市越秀國有資產經營有限公司 ("Yuexiu SoE") (the vendor of Yuefang SoE) retains Yuefang SoE's interest in GZ Zheng Da as a state-owned asset by law and if the *jural nexus* (法律關係) between Yuexiu SoE (the first defendant) and HK Zheng Da (the plaintiff) in the co-operative joint venture of GZ Zheng Da does substantiate;

(ii) to ascertain if the *jural nexus* (法律關係) between HK Zheng Da and Yuefang PE (the second defendant) in the co-operative joint venture of GZ Zheng Da does not substantiate; and

(iii) to claim interest loss of RMB41 million from Yuexiu SoE.

The writ was accepted (受理) by the Guangzhou Court in mid May 2024 and the hearing date was tentatively fixed in August 2024. GZ Zheng Da joined the writ as an interested party (利害關係人).

Based on competent legal advice, both HK Zheng Da and GZ Zheng Da were of the view that the New Liquidation Order would be void and inoperative as permissible by law if the related pleads made by HK Zheng Da were ascertained by the court.

Further details of the above writ were disclosed in the Company's announcement of the Company dated 30 May 2024.

(b) As further disclosed in note 32(c) to the financial statements, the Company and the Vendors had not yet concluded any revised terms for settlement of the consideration for, and completion timetable in relation to the uncompleted tranches under, the Acquisition Agreement since June 2023. As such, the Company and the Vendors, amongst other parties, entered into an extension agreement (the "2024 Extension Agreement") on 24 June 2024 to further extend the completion of the Remaining Tranches (as defined in the Acquisition Agreement) to 30 June 2026 with an aim of arriving at revised terms for the Acquisition Agreement.

Other than the extension of the completion of the Remaining Tranches to 30 June 2026 pursuant to the 2024 Extension Agreement, the Directors confirmed that all terms and conditions of the Acquisition Agreement (as amended by previous supplemental agreements disclosed up to the date of the Company's announcement dated 30 June 2023) remained valid and binding to the parties thereto. Further details were disclosed in the Company's announcement dated 24 June 2024.

## 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 June 2024.

# Five-Year Group Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the respective published audited financial statements and as appropriate, is set out below:

**RESULTS**

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Revenue | **28,363** | 30,283 | 57,670 | 24,423 | 41,732 |
| Profit/(loss) before tax | **(1,739,488)** | 54,950 | 59,109 | (440) | (78,805) |
| Income tax credit/(expense) | **(109,870)** | (20,900) | (28,128) | (4,498) | 16,706 |
| Profit/(loss) before non-controlling interests | **(1,849,358)** | 34,050 | 30,981 | (4,938) | (62,099) |
| Non-controlling interests | **1,367,218** | (30,777) | (24,170) | (1,638) | 43,594 |
| Profit/(loss) for the year attributable to ordinary equity holders of the Company | **(482,140)** | 3,273 | 6,811 | (6,576) | (18,505) |
| Adjusted EBITDA* | **6,060** | 7,447 | 29,301 | 1,575 | 5,436 |

**ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS**

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2023** | 2022 | 2021 | 2020 | 2019 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| TOTAL ASSETS | **1,496,606** | 4,415,959 | 4,727,091 | 4,564,165 | 4,299,524 |
| TOTAL LIABILITIES | **(433,507)** | (1,394,436) | (1,503,715) | (1,451,973) | (1,384,655) |
| NON-CONTROLLING INTERESTS | **(687,285)** | (2,147,553) | (2,286,206) | (2,206,224) | (2,074,825) |
| | **375,814** | 873,970 | 937,170 | 905,968 | 840,044 |

* Adjusted EBITDA refers to the earnings before interest, tax and depreciation and does not take into account the effect of changes of fair value of investment properties, loss on derecognition of a then subsidiary and changes in fair value of equity interest in an entity at fair value through profit or loss.

# Schedule of Property Interests

Particulars of the major property in Mainland China held by the Group as at 31 December 2023 is as follows:

## Investment Property

| Description | Use | Lease term | Approximate gross floor area (sq.m.) | Attributable percentage interest |
|---|---|---|---|---|
| The whole of Level 1, Level 2, Level 3, Level 4, Level 8, Level 11, and portion of Basement Level of Gang Yu Square Chiao Dong Road Chaotianmen Chongqing | Commercial | Medium | 24,372 | 100 |