

# HANVEY GROUP HOLDINGS LIMITED 恆偉集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(於開曼群島註冊成立的有限公司)

Stock Code 股份代號 : 8219



# 2022

Annual Report 年報

## **CHARACTERISTICS OF GEM ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the "Directors") of Hanvey Group Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material aspects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.*

# Contents



3	Corporate Information
4	Chairman's Statement
6	Management Discussion and Analysis
12	Corporate Governance Report
22	Biographical Details of the Directors and Senior Management
27	Report of Directors
36	Environmental, Social and Governance Report
54	Independent Auditors' Report
59	Consolidated Statement of Profit or Loss and Other Comprehensive Income
60	Consolidated Statement of Financial Position
62	Consolidated Statement of Changes in Equity
63	Consolidated Statement of Cash Flows
65	Notes to the Consolidated Financial Statements
134	Financial Summary

# Corporate Information

## BOARD OF DIRECTOR

### Executive Directors

Mr. Cheuk Sin Cheong Clement  
(*Chairman and Chief Executive Officer*)  
Ms. Au Corona Ching Mei M.H.

### Independent Non-Executive Directors

Mr. Yu Sau Ning Homer M.H.  
Mr. Zhao Zhipeng  
Ms. Yee Wai Fong Wendy  
Dr. Liu Ngai Wing

## COMPLIANCE OFFICER

Ms. Au Corona Ching Mei M.H.

## COMPANY SECRETARY

Mr. Xie Xing (resigned on 1 August 2022)  
Ms. Pang Yuk Fong (appointed on 1 August 2022)

## AUTHORISED REPRESENTATIVES

Ms. Au Corona Ching Mei M.H.  
Mr. Xie Xing (resigned on 1 August 2022)  
Ms. Pang Yuk Fong (appointed on 1 August 2022)

## AUDIT COMMITTEE

Mr. Yu Sau Ning Homer M.H. (*Chairman*)  
Mr. Zhao Zhipeng  
Ms. Yee Wai Fong Wendy

## REMUNERATION COMMITTEE

Mr. Zhao Zhipeng (*Chairman*)  
Mr. Yu Sau Ning Homer M.H.  
Ms. Au Corona Ching Mei M.H.  
Dr. Liu Ngai Wing

## NOMINATION COMMITTEE

Mr. Cheuk Sin Cheong Clement (*Chairman*)  
Mr. Yu Sau Ning Homer M.H.  
Ms. Yee Wai Fong Wendy

## AUDITOR

HLB Hodgson Impey Cheng Limited  
(resigned on 28 December 2022)  
Confucius International CPA Limited  
(appointed on 28 December 2022)

## HONG KONG LEGAL ADVISOR

TC & Co., Solicitors

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 3, 5 and 6, 15th Floor  
Tower One, Ever Gain Plaza  
No. 88 Container Port Road  
Kwai Chung, New Territories  
Hong Kong

## REGISTERED OFFICE

Cricket Square, Hutchins Drive  
PO Box 2681, Grand Cayman  
KY1-1111, Cayman Islands

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Conyers Trust Company (Cayman) Limited  
Cricket Square, Hutchins Drive  
PO Box 2681, Grand Cayman  
KY1-1111, Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
Hang Seng Bank

## GEM STOCK CODE

8219.HK

## WEBSITE ADDRESS

[www.hanveygroup.com.hk](http://www.hanveygroup.com.hk)

# Chairman's Statement

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Hanvey Group Holdings Limited (the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2022.

## BUSINESS REVIEW

The Hong Kong Trade Development Council ("**HKTDC**") used to conduct a survey every quarter, which involves interviewing 500 local exporters from six major industries that include machinery, electronics, jewellery, watches and clocks, toys and clothing to gauge their business confidence on near-term export prospects. According to the HKTDC's research entitled: "HKTDC Export Index 4Q22: Local Exporter Confidence Falter in Face of Global Economic Slowdown" dated 15 December 2022, the HKTDC Export Index (the "**Index**") fell from 37.2 in the fourth quarter of 2021 ("**4Q21**") to 29.7 in the fourth quarter of 2022 ("**4Q22**").

The HKTDC reported that, overall, a downturn in the economy is evident across all the major industry sectors, with timepieces falling from 37.5 in 4Q21 to 36.8 in 4Q22. This suggests that exporters see continued downward pressure on prices.

In addition to the continued negative impact from the COVID-19 pandemic (the "**Pandemic**"), increased transportation costs and logistics disruptions remain the primary challenges, although the number of adversely affected cases is notably down. Following the lifting of quarantine measures for arrivals in Hong Kong as of September 2022, the problem of communicating with overseas buyers/suppliers become less of a concern in 4Q22.

Looking ahead, the risks of an economic slowdown and recession in many of the major markets has become the primary concern of the exporters.

## OUTLOOK AND FUTURE PROSPECTS

Looking ahead, the business environment in overseas markets remains uncertain but opportunities always come along with challenges. Although the widespread of the Pandemic has badly hit the economic activities in PRC, with the full relaxation of pandemic control policies by the PRC Government during the end of 2022, the constrained social and economic activities will be released to boost the economic market.

The equity market is likely to remain volatile because of the US Federal Reserve continues to raise interest rates, and the cost of capital has risen, which has caused unprecedented difficulties in business operations. Taking into consideration the challenges faced by the Group, the Group will closely observe the market.

For overseas markets, economic growth in Europe and the United States is projected to slow down due to the negative market outlook under high inflation and the Russia-Ukraine war. However, in the Southeast Asian market that we focus on, there is still a huge market demand of automatic mechanical watch and quartz watch. The Group will closely observe the market trend and provide designs that suit the customers and market needs.

We intend to continue to focus on the core business, take efforts in strengthening our product design and developing capability to maximise the long term returns of the shareholders of the Company.

# Chairman's Statement

## APPRECIATION

I would like to take this opportunity to express my gratitude to the Board for its excellent leadership, to the Company's shareholders for their strong support and guidance, and to the community for their enthusiastic help, and last but not least, to our staff for their dedicated efforts and brilliant ideas.

**CHEUK Sin Cheong Clement**

*Chairman*

Hong Kong, 24 March 2023

# Management Discussion and Analysis

## OVERVIEW

The Group is principally engaged in the design and development, manufacturing and distribution of watch products on original design manufacturing (“ODM”) basis for watch manufacturers, brand owners and watch importers across the globe.

The Group derives revenue mainly from the sale of: (i) finished watches, (ii) semi-knocked-down kits, and (iii) watch parts.

For the year ended 31 December 2022, the Group’s revenue amounted to approximately HK\$272.56 million, increased by approximately 33.28% when compared with that for the corresponding period of 2021.

## BUSINESS REVIEW

The Hong Kong Trade Development Council (“HKTDC”) used to conduct a survey every quarter, which involves interviewing 500 local exporters from six major industries that include machinery, electronics, jewellery, watches and clocks, toys and clothing to gauge their business confidence on near-term export prospects. According to the HKTDC’s research entitled: “HKTDC Export Index 4Q22: Local Exporter Confidence Falts in Face of Global Economic Slowdown” dated 15 December 2022, the HKTDC Export Index (the “Index”) fell from 37.2 in the fourth quarter of 2021 (“4Q21”) to 29.7 in the fourth quarter of 2022 (“4Q22”).

The HKTDC reported that, overall, a downturn in the economy is evident across all the major industry sectors, with timepieces falling from 37.5 in 4Q21 to 36.8 in 4Q22. This suggests that exporters see continued downward pressure on prices.

In addition to the continued negative impact from the Pandemic, increased transportation costs and logistics disruptions remain the primary challenges, although the number of adversely affected cases is notably down. Following the lifting of quarantine measures for arrivals in Hong Kong as of September 2022, the problem of communicating with overseas buyers/suppliers become less of a concern in 4Q22.

Looking ahead, the risks of an economic slowdown and recession in many of the major markets has become the primary concern of the exporters.

## FINANCIAL REVIEW

### Revenue

The revenue of the Group increased by approximately HK\$68.06 million or approximately 33.28% from approximately HK\$204.50 million for the year ended 31 December 2021 to approximately HK\$272.56 million for the year ended 31 December 2022. The increase was mainly due to the availability of vaccines in January 2022, and the decrease in the number of infections in some Asian countries. Hence, the demand for our products has gradually increased.

### Cost of sales

Our cost of sales increased by approximately HK\$68.69 million or 46.52% from approximately HK\$147.65 million for the year ended 31 December 2021 to approximately HK\$216.34 million for the year ended 31 December 2022. The increase in cost of sales was mainly due to the increase in revenue.

# Management Discussion and Analysis

## Gross profit and gross profit margin

As a result of the decline in the gross profit of the Group due to the increase in the cost of sales, which the Group is unable to pass on to the customers due to the increased competition in the market, especially during the Pandemic, our gross profit decreased by approximately HK\$0.62 million or approximately 1.09% from approximately HK\$56.84 million for the year ended 31 December 2021 to approximately HK\$56.22 million for the year ended 31 December 2022.

## Selling and distribution expenses

Our selling and distribution expenses decreased by approximately HK\$0.41 million or approximately 8.93% from approximately HK\$4.59 million for the year ended 31 December 2021 to approximately HK\$4.18 million for the year ended 31 December 2022.

## Administrative expenses

Our administrative expenses increased by approximately HK\$6.07 million or approximately 11.57% from approximately HK\$52.48 million for the year ended 31 December 2021 to approximately HK\$58.55 million for the year ended 31 December 2022. The increase was primarily due to (i) the increase in staff cost as a result of, among others, of an increase in salaries and distribution of bonus to staff; (ii) the increase in the provision of expected credit loss on account receivables; and (iii) the increase in the Group's charitable donation.

## Finance costs

Our finance costs increased by approximately HK\$1.60 million or approximately 31.07% from approximately HK\$5.15 million for the year ended 31 December 2021 to approximately HK\$6.75 million for the year ended 31 December 2022. The increase was mainly due to the rise in bank interest rates.

## Loss before tax

We recorded an increase in a loss before tax of approximately HK\$10.52 million for the year ended 31 December 2022 as compared to the loss before tax of approximately HK\$2.90 million for the year ended 31 December 2021.

## Taxation

Our income tax expenses increased by approximately HK\$0.71 million or approximately 645.45% from income tax credit approximately HK\$0.11 million for the year ended 31 December 2021 approximately to income tax expense HK\$0.60 million for the year ended 31 December 2022. The increase was mainly due to the increase in taxable profit of a Hong Kong subsidiary.

## Loss for the year

As a result of the foregoing, we recorded a loss for the year of approximately HK\$11.12 million for the year ended 31 December 2022 as compared to approximately HK\$2.79 million for the year ended 31 December 2021.



# Management Discussion and Analysis

## OUTLOOK AND FUTURE PROSPECTS

Looking ahead, the business environment in overseas markets remains uncertain but opportunities always come along with challenges. Although the widespread of the Pandemic has badly hit the economic activities in China, with the full relaxation of pandemic control policies by the PRC Government during the end of 2022, the constrained social and economic activities will be released to boost the economic market.

The equity market is likely to remain volatile because of the US Federal Reserve continues to raise interest rates, and the cost of capital has risen, which has caused unprecedented difficulties in business operations. Taking into consideration the challenges faced by the Group, the Group will closely observe the market.

For overseas markets, economic growth in Europe and the United States is projected to slow down due to the negative market outlook under high inflation and the Russia-Ukraine war. However, in the Southeast Asian market that we focus on, there is still a huge market demand of automatic mechanical watch and quartz watch. The Group will closely observe the market trend and provide designs that suit the customers and market needs.

We intend to continue to focus on the core business, take efforts in strengthening our product design and developing capability to maximise the long term returns of the shareholders of the Company.

## CAPITAL STRUCTURE

There has been no change in the Company's capital structure for the year ended 31 December 2022. The capital structure of the Group comprises of issued share capital and reserves. The Directors review the Group's capital structure regularly.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had cash and cash equivalents of approximately HK\$14.62 million (2021: HK\$13.05 million). The current ratios (current asset divided by current liabilities) of the Group were 1.12 times and 0.87 times as at 31 December 2022 and 31 December 2021 respectively.

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

As at 31 December 2022, the gearing ratio of the Group calculated by total borrowings (including bills payables, bank overdrafts, bank borrowings and lease liabilities) less pledged bank deposits and cash and bank balances as a percentage of total equity was approximately 230.97%. (2021: 226.32%).

## COMMITMENTS

As at 31 December 2022, the Group had no capital commitments.

## PLEDGE OF ASSETS

As at 31 December 2022, the following assets were pledged to bank to secure the Group's banking facilities:

	HK\$'000
Property, plant and equipment	49,850
Financial assets at fair value through profit or loss	18,408
Investment properties	11,573
Pledged bank deposits	57,049
	136,880

# Management Discussion and Analysis

## FOREIGN EXCHANGE EXPOSURE

The Group's purchases are denominated in Hong Kong Dollars. The sales of the Group are predominantly in US Dollars, Renminbi and Hong Kong Dollars. The Group will continue to review and monitor from time to time the risk relating to foreign exchanges.

During the year ended 31 December 2022, the Group neither took part in any derivatives activities nor entered into any hedging activities in respect of foreign exchange risk.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2022 (2021: Nil).

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2022, we had a total of 111 employees (2021: 119). The Company determines employee salaries based on each employee's qualifications, position and seniority. Our Group has established an annual review system to assess the performance of our employees, which forms the basis of our decisions with respect to salary raises, bonuses and promotions.

The emoluments of the Directors are decided by the Board with the recommendation from the Remuneration Committee of the Company, having considered factors such as the Group's financial performance, the achievement of special targets and the individual performance of the Directors, etc.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees.

## SUBSEQUENT EVENTS

Subsequent to the end of the reporting period, the Group had no significant events occurred.

## USE OF PROCEEDS

Details of the Rights Issue are set out in the prospectus of the Company dated 27 January 2022 (the "Prospectus") and the announcements of the Company dated 24 December 2021, 22 February 2022 and 4 March 2022 (the "Announcements") in relation to a Rights Issue on the basis of one (1) Rights Share for every two (2) Shares held on the Record Date at the Subscription Price of HK\$0.22 per Rights Share. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Prospectus. The Company issued and allotted an aggregate of 15,000,000 new ordinary shares to not less than six independent third parties. The net price per Placing Share is estimated to be approximately HK\$0.48. Details of the Placing are set out in the Company's announcements dated 13 July 2022 and 29 July 2022.

The Group has fully utilised the net proceeds from the Rights Issue and Placing, details are as follows:

	Allocation HK\$'000	Amount utilised up to 31 December 2022 HK\$'000	Amount unutilised as at 31 December 2022 HK\$'000
Repayment of bank loans	12,070	12,070	–
Working capital	5,166	5,166	–
Total	17,236	17,236	–

## Management Discussion and Analysis

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

During the year ended 31 December 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**

Save as disclosed in this annual report, there was no significant investment, material acquisition and disposal of subsidiaries, associates and joint ventures by the Company for the year ended 31 December 2022.

### **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

Save as disclosed in this annual report, the Group did not have other plans for material investments or capital assets for the coming year.

### **SHARE OPTION SCHEME**

The Company has a share option scheme (the "**Share Option Scheme**") which was approved and adopted by the shareholders of the Company (the "**Shareholder(s)**") by way of written resolutions passed on 20 June 2018. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date it was adopted. The purpose of the Share Option Scheme is to provide incentives or rewards to participants for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group and any entity in which our Group holds any equity interest ("**Invested Entity**").

Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares in issue at any point in time, without prior approval from the Company's shareholders. The Company may not grant any options if the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and other schemes exceeds 30% of the Shares in issue from time to time. Options granted to the substantial shareholders or Independent Non-executive Directors of the Company in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders. The option will be offered for acceptance for a period of not less than five trading days from the date on which the option is granted. Upon acceptance of the option, Directors and eligible employees of the Company shall pay HK\$1.00 to the Company by way of consideration for the grant.

Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Company, and will not be less than the highest of (i) the nominal value of the Company's share; (ii) the closing price of the Shares on the date of grant; and (iii) the average closing price of the Shares for the five business days immediately preceding the date of grant. No share options have been granted since the adoption of the Scheme on 28 June 2018.

### **COMPETING INTERESTS**

The Directors are not aware of any business or interest of the Directors, the Controlling Shareholder and/or their respective associates (as defined under the GEM Listing Rules) that competed or might compete with the business of the Group and any other conflict of interest which any such person had or might have with the Group during the year ended 31 December 2022.

# Management Discussion and Analysis

## NON-COMPETITION UNDERTAKING

Each of the Controlling Shareholders (as defined in the GEM Listing Rules) has made an annual declaration to the Company that during the year ended 31 December 2022, he/she/it has complied with the terms of non-competition undertakings (“**Non-Competition Undertakings**”) given in favour of the Company. The Independent Non-executive Directors have also reviewed the status of compliance by each of the Controlling Shareholders with the undertakings stipulated in the Non-Competition Undertakings and have confirmed that, as far as the Independent Non-executive Directors can ascertain, there is no breach of any of such undertaking.

## DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

## CORPORATE GOVERNANCE CODE

The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 15 to the GEM Listing Rules during the year ended 31 December 2022, except for the deviation as specified and explained below with considered reasons for such deviations.

Provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cheuk Sin Cheong Clement is currently both the Chairman of our Board and the Chief Executive Officer of our Company. In view of the fact that Mr. Cheuk has been assuming the day-to-day responsibilities in operating and managing our Group since 1986 and the rapid development of our Group, the Board believes that with the support of Mr. Cheuk’s extensive experience and knowledge in the business of the Group, vesting the roles of both chairman of our Board and chief executive officer of our Company in Mr. Cheuk strengthens the solid and consistent leadership and thereby allows for efficient business planning and decision which is in the best interest to our Group.

The Directors consider that the deviation from provision C.2.1 of the CG Code is appropriate in such circumstances. Notwithstanding the above, the Board is of the view that this management structure is effective for our Group’s operations, and sufficient checks and balances are in place.

Except for code provision C.2.1 of the CG Code, our Company’s corporate governance practices have complied with the CG Code during the year ended 31 December 2022.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, the Company confirms that the Directors complied with required standard of dealings and its code of conduct regarding securities transactions by Directors during the year ended 31 December 2022.

# Corporate Governance Report

## RESPONSIBILITIES OF THE BOARD

The Board is responsible for the leadership and control of the Group, and oversees the Group's businesses, strategic decisions and performance. The Board is primarily responsible for overall business plans and strategies of the Group, the implementation of the Group's policies and strategies, monitoring the business performance, internal controls and risk management as well as supervising the management of the Group.

The Board delegates daily management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board to ensure that they accommodate the needs of the Group.

## COMPOSITION OF THE BOARD

As at the date of this annual report, the Board comprises six Directors, including two Executive Directors and four Independent Non-executive Directors. The composition of the Board is set out as follows:

### Executive Directors

Mr. Cheuk Sin Cheong Clement (*Chairman*)  
Ms. Au Corona Ching Mei M.H.

### Independent Non-Executive Directors

Mr. Yu Sau Ning Homer M.H.  
Mr. Zhao Zhipeng  
Ms. Yee Wai Fong Wendy  
Dr. Liu Ngai Wing

Biographical details of each Director and relationship between board members are set out on page 22 to page 26 of this annual report.

## TERM OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with Article 83(3) of the Articles of Association of the Company (the "**Articles**"), the Directors have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In accordance with Article 84(1) of the Articles, one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

# Corporate Governance Report

## DIVERSITY OF THE BOARD

The Company has adopted a Board Diversity Policy to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The nomination committee of the Company (“**Nomination Committee**”) monitors the implementation of the Board Diversity Policy to ensure the effectiveness of the Board diversity policy.

During the year, the Nomination Committee has reviewed the composition of the Board and as at the date of this annual report the profiles of the Directors are as follows:

		<b>No. of Directors</b>
Gender:	Male	4
	Female	2
Ethnicity:	Chinese	6
Age Group:	31–40	1
	41–50	–
	51–60	1
	61–70	3
	71–80	1
Length of Service (year):	1–10	6

The Nomination Committee opined that the Board had achieved gender diversity and possessed skill and expertise and a diverse mix which is appropriate for the business of the Company. It will review the composition and diversity of the Board on a regular basis to ensure its continued effectiveness. The Company has also taken and will continue to take steps to promote gender diversity at all levels of the Company, including but not limited to the Board and senior management levels and to improve the composition of the Board in order to develop a pipeline of potential successors.

As at 31 December 2022, approximately 63.96% of our total workforce were female. We will continue with our best endeavor to maintain female representation in our workforce.

# Corporate Governance Report

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Cheuk Sin Cheong Clement is currently both the chairman of the Board and the chief executive officer of the Company, responsible for formulating the overall business development strategy and planning of the Group. In view that Mr. Cheuk has been responsible for the overall management of the Group since its inception, the Board believes that it is in the best interest of the Group to have Mr. Cheuk taking up both roles for effective management and business development.

The Board considers that the balance of power and authority, accountability and independent decision-making under our present arrangement will not be impaired because of the diverse background and experience of the other Executive Directors and Independent Non-executive Directors.

Further, the audit committee of the Company ("**Audit Committee**") has free and direct access to the Company's external auditors and independent professional advisers when it considers necessary. Therefore, the Directors consider that the deviation from code provision C.2.1 of the CG Code is appropriate in such circumstance.

In order to maintain good corporate governance and to fully comply with code provision C.2.1 of the CG Code, the Board comprises six experienced and high-calibre individuals who include two Executive Directors and four Independent Non-executive Directors who are able to offer advice from various perspectives. In addition, for major decisions of the Group, the Company will consult the appropriate Board committees and senior management. Considering the present size and the scope of business of the Group, we consider that it is not in the best interest of the Company and the shareholders as a whole to separate the roles of the chairman and the chief executive officer, because the separation would render the decision-making process of the Company less efficient than the current structure. Therefore, the Directors consider that the present arrangement is beneficial to and in the interest of the Company and the shareholders as a whole and the deviation from code provision C.2.1 of the CG Code is appropriate in such circumstance.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has complied with Rule 5.05 of the GEM Listing Rules relating to the appointment of at least three Independent Non-executive Directors, with at least one of them have appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers the Independent Non-executive Directors to be independent in accordance with the independence guidelines set out in the GEM Listing Rules.

Each of the Independent Non-executive Directors has signed a letter of appointment with the Company for a specific terms of three years and is subject to retirement by rotation in accordance with the Articles.

# Corporate Governance Report

## BOARD COMMITTEES

### Audit Committee

The Company has established an Audit Committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and the paragraph D.3.3 and A.2.1 of CG Code. The Audit Committee consists of three Independent Non-executive Directors namely Mr. Yu Sau Ning Homer M.H., Mr. Zhao Zhipeng and Ms. Yee Wai Fong Wendy, Mr. Yu Sau Ning Homer M.H. is the chairman of the Audit Committee.

The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of the Company's financial reporting process, internal control and risk management system, to monitor the independence and objectivity of the external auditor, to oversee the audit process, to perform the corporate governance function and other duties and responsibilities as assigned by the Board. Four Audit Committee meetings have been held during the Relevant Period to review with the management the accounting standards and practices adopted by the Group, and discussing auditing, internal control, risk management and financial reporting matters including the review of annual results and financial statements for the year ended 31 December 2022 and review of result for three months ended 31 March 2022, six months ended 30 June 2022 and nine months ended 30 September 2022. Details of the attendance records of the Audit Committee members are set out on page 17 of this annual report.

### Remuneration Committee

The Company has established a Remuneration Committee of the Company with written terms of reference in compliance with paragraph E.1.2 of the CG Code. The Remuneration Committee consists of one Executive Director namely Ms. Au Corona Ching Mei M.H. and three Independent Non-executive Directors, namely Mr. Zhao Zhipeng, Mr. Yu Sau Ning Homer M.H. and Dr. Liu Ngai Wing. Mr. Zhao Zhipeng is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to the Directors on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of the Directors and senior management; and (iii) reviewing and approving performance-based remuneration with reference to corporate goals and objectives resolved by the Directors from time to time.

One Remuneration Committee meetings have been held during the Relevant Period to review the remuneration structure of the Directors and make recommendation on the adjusted remuneration packages to the executive Directors. Details of the attendance records of the Remuneration Committee members are set out on page 17 of this annual report.



# Corporate Governance Report

## Nomination Committee

The Company has also established a Nomination Committee with written terms of reference in compliance with paragraph B.3.1 of the CG Code. The Nomination Committee consists of one Executive Director namely Mr. Cheuk Sin Cheong Clement and two Independent Non-executive Directors, namely Mr. Yu Sau Ning Homer M.H. and Ms. Yee Wai Fong Wendy. Mr. Cheuk Sin Cheong Clement is the chairman of the Nomination Committee. The primary function of the Nomination Committee is to, inter alia, make recommendations to the Board to fill vacancies in the Board. The secretary of the Company shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members for consideration by the Nomination Committee.

The Nomination Committee may also put forward candidates who are not nominated by Board members. The factors which would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate for Director include, inter alia, reputation for integrity, professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy, willingness to devote adequate time to discharge duties as Board member, diversity of the Board, and such other perspectives appropriate to the Company's business. The Nomination Committee shall make recommendations for the Board's consideration and approval.

During the Relevant Period, one Nomination Committee meeting has been held to review the structure, size and composition of the Board by reference to the criteria as mentioned above, assess the independence of the Independent Non-executive Directors and make recommendation on the re-election of the Directors at the annual general meeting of the Company held on 17 June 2022. Details of the attendance records of the Nomination Committee members are set out on page 17 of this annual report.

## BOARD MEETINGS

For a regular Board meeting, at least 14 days' notice will be given to the Board members. For other Board and committee meetings, reasonable notices are generally given. An agenda and Board papers of the regular meeting are sent to all Directors in advance within reasonable time and all Directors are free to contribute and share their views at the meeting. Minutes of all Board and committee meetings are circulated to the Directors and open for inspection by the Directors.

The Articles contains provisions requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving any contract or arrangement or any other proposal in which such Directors or any of their close associates have a material interest.

# Corporate Governance Report

## ATTENDANCE RECORD OF DIRECTORS AND COMMITTEE MEMBERS

The attendance record of each Director at the Board Meetings, Audit Committee Meeting, Nomination Committee Meeting, Remuneration Committee Meeting and annual general meeting of the Company held for the year ended 31 December 2022 is set out in the table below:

Name of Directors	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Annual General Meeting
<b>Executive Directors</b>					
Mr. Cheuk Sin Cheong Clement	5/5	N/A	1/1	N/A	1/1
Ms. Au Corona Ching Mei M.H.	5/5	N/A	N/A	1/1	1/1
<b>Independent Non-Executive Directors</b>					
Mr. Yu Sau Ning Homer M.H.	5/5	4/4	1/1	1/1	1/1
Mr. Zhao Zhipeng	5/5	4/4	N/A	1/1	1/1
Ms. Yee Wai Fong Wendy	5/5	4/4	1/1	N/A	1/1
Dr. Liu Ngai Wing	5/5	N/A	N/A	1/1	1/1

## CORPORATE GOVERNANCE FUNCTIONS

According to code provision A.2 of the CG Code, the Board is responsible for performing the corporate governance duties of the Company.

The Board reviewed the Company's corporate governance policies and practices, continuous professional development of Directors, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the GEM Listing Rules, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

## FINANCIAL REPORTING

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group. In preparing the consolidated financial statements for the year ended 31 December 2022, the Group has selected suitable accounting policies in accordance with accounting principles and applied them consistently. A statement by the auditors of the Company about its responsibilities for the financial statements is set out in the independent auditors' report contained in this annual report. The Directors adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

# Corporate Governance Report

## CONTINUING PROFESSIONAL DEVELOPMENT OF THE DIRECTORS

Pursuant to the code provision C.1.4 under Appendix 15 to the GEM Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. For the year ended 31 December 2022, all Directors and a majority of the senior management of the Group received induction trainings from the Company's Hong Kong legal adviser in respect of the ongoing obligations, duties and responsibilities of Directors of publicly listed companies in Hong Kong under the Companies Ordinance, the Securities and Futures Ordinance ("SFO") and the GEM Listing Rules.

The Company will from time to time provide briefings to all Directors to refresh their duties and responsibilities. The Directors are also encouraged to attend relevant training courses provided by legal advisers and/or any appropriate institutions.

## COMPANY SECRETARY

Ms. Pang Yuk Fong is the Company Secretary of the Company. Please refer to the section headed "Biographical Details of the Directors and Senior Management" of this annual report for the biographical details of the company secretary of the Company.

For the year ended 31 December 2022, Ms. Pang has undertaken not less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules.

## AUDITORS' REMUNERATION

The Company engaged Confucius International CPA Limited as its Auditors for the year ended 31 December 2022. The analysis of the auditors' remuneration for the year ended 31 December 2022 is set out as follow:

Type of services provided by external auditors	Amount of fees HK\$'000
Audit services	570
Non-audit service	–
Total	570

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has responsibility for maintaining appropriate and effective risk management and internal control systems of the Group. The Board has delegated responsibility to the Audit Committee to review the Group's risk management and internal control matters annually.

For the year ended 31 December 2022, the Group did not have an internal audit function as required under code provision D.2.5 of the CG Code. The Company has engaged an external independent internal control consultant to review the Group's risk management and internal control systems. The Audit Committee reviewed the internal control review report issued by the external independent consultant on the Company's risk management and internal control systems in respect of the year ended 31 December 2022 and considered that they are effective and adequate. The Board assessed the effectiveness of internal control systems by considering the internal control review report and reviews performed by the Audit Committee and concurred the same.

# Corporate Governance Report

The Board opined that it will be more cost effective to engage as external consultant to review its risk management and control system. Therefore, during the Reporting Period, the Group has engaged Safestyle Consulting Limited (“**Safestyle**”), as its risk management and internal control review advisor for the year ended 31 December 2022, to review the Group’s risk management system.

The procedures used to identify, evaluate and manage major risks by the Group are summarised as follows:

## **Risk Identification**

- Identify risks that may potentially affect the Group’s business and operations.

## **Risk Assessment**

- Assess the risks identified by using the assessment criteria developed by the management; and
- Consider the impact on our business and the likelihood of their occurrence.

## **Risk Response**

- Prioritise the risks by comparing the results of the risk assessment; and
- Determine the risk management strategies and internal control procedures to prevent, avoid or mitigate the risks.

## **Risk Monitoring and Reporting**

- Perform ongoing and periodic monitoring of the risks to ensure that the appropriate internal control procedures are in place;
- Revise the risk management strategies and internal control procedures if there is any significant change of situation; and
- Report the results of risk monitoring to the management and the Board regularly.

The Board considered that major risks of the Group have been managed within the acceptable level and the management will continue to monitor the residual risks and report to the Board on an ongoing basis.

The management and various departments will conduct periodic self-assessment of the effectiveness of the internal control policies and procedures. Safestyle has been engaged and has assisted the Group to perform a review of the effectiveness of the Group’s internal control systems that covers financial, operational and compliance controls.

The Board, supported by the Audit Committee and Safestyle, is directly responsible for risk management and internal control systems of the Group and for reviewing its effectiveness. Based on the reviews performed by the management, the comments from the Audit Committee and the recommendations for areas of improvement from the external auditor and the risk management and internal control review advisor, the Board is of the view that the Group’s risk management and internal control systems are effective and adequate for the year ended 31 December 2022.

The Company maintains a framework for the handling and dissemination of inside information and the disclosure policy of the framework sets out the procedures and internal controls to ensure inside information remains confidential until such information is appropriately disclosed and the announcement of such information is made in a timely manner in compliance with the SFO and the GEM Listing Rules.

## DISCLOSURE OF INSIDE INFORMATION

The Group complies with requirements of Securities Futures Ordinance (the “SFO”) and the GEM Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

## DIVIDEND POLICY

The Board endeavors to strike a balance between the interests of the shareholders of the Company and prudent capital management with a sustainable dividend policy. In proposing any dividend payout, the Board shall also take into account, inter alia:

1. the actual and expected financial performance of the Group;
2. retained earnings and distributable reserves of the Company and each of the other members of the Group;
3. economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group;
4. business strategies of the Group, including future cash commitments and investment needs to sustain the long-term growth aspect of the business;
5. the current and future operations, liquidity position and capital requirements of the Group;
6. statutory and regulatory restrictions; and
7. other factors that the Board deems appropriate.

The Board will review the dividend policy as appropriate from time to time.

## THE SHAREHOLDERS’ RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING AND PUT FORWARD PROPOSALS AT SUCH MEETING

Pursuant to article 58 of the Articles, any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings shall at all time have the right, by written requisition to the Board or the secretary of the Company at the principal place of business of the Company in Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

# Corporate Governance Report

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

To ensure that the shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company, the Company has established several channels to communicate with the shareholders as follows:

- (i) corporate communications such as annual reports, interim reports, quarterly reports and circulars are issued in printed form and are available on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of the Company at [www.hanveygroup.com.hk](http://www.hanveygroup.com.hk);
- (ii) periodic announcements are published on the websites of the Stock Exchange and the Company;
- (iii) corporate information is made available on the Company's website; and
- (iv) annual and extraordinary general meetings provide a forum for the shareholders to make comments and exchange views with the Directors and senior management.

The Company recognised the importance of effective communication with the Shareholders and adopted the shareholder communication policy.

The Board and management maintain a continuing dialogue with the Shareholders and other stakeholders through various channels which includes but not limited to the Company's general meetings. The Company encourages all shareholders to attend general meetings which provide a useful forum for shareholders to exchange views with the Board. During the year, an annual general meeting of the Company was held to pass resolutions which are significant to the operation of the Company.

To provide timely and effective communication, the Company maintains a corporate website ([www.hanveygroup.com.hk](http://www.hanveygroup.com.hk)) where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

The implementation and effectiveness of the shareholder communication policy is reviewed by the Board during the year. The Board opined that the current channels are sufficient for the Company to communicate with the shareholders. Thus, this Policy is considered as effective. Shareholders can refer to the "Shareholders' Communication Policy" posted on the Company's website for more details.

The Company keeps on promoting investor relations and enhancing communication with the existing shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

### Whistle-blowing policy and Anti-corruption policy

Whistle-blowing and anti-corruption policies have been established. More details and the mechanism of these 2 Policies can be found in the 2022 Environmental, Social and Governance Report of the Company.

## CONSTITUTIONAL DOCUMENTS

For the year ended 31 December 2022, there has been no change in the Company's Memorandum and the Articles.

# Biographical Details of the Directors and Senior Management

Biographical details of the Directors and the senior management of the Group are set out as follows:

## EXECUTIVE DIRECTORS

**Mr. CHEUK Sin Cheong Clement (卓善章)**, aged 64, is the chairman of our Board, our founder, our Executive Director, one of our Controlling Shareholders and our Chief Executive Officer. He is also the chairperson of our Nomination Committee. He is a director of each of the operating subsidiaries of our Group. Mr. Cheuk is primarily responsible for formulating our Group's overall strategy planning, overseeing sales and marketing, product development, and overall management of our Group's business.

Mr. Cheuk has more than 34 years of experience in the watch industry, particularly in product design development, sales and marketing. He was the vice chairman of the 17th session of and the chairman of the 18th session of The Federation of Hong Kong Watch Trades & Industries Limited and an advisor of The Federation of Hong Kong Watch Trades & Industries Limited since 2000. He was also a member of Watches and Clocks Advisory Committee of the Hong Kong Trade Development Council from 1996 to 2007.

Mr. Cheuk obtained a Master's Degree of Business Administration (executive) from the City University of Hong Kong in November 2001. He was admitted as an honorary fellow of the Professional Validation Centre of Hong Kong Business Sector in June 2015. He was also awarded the Young Industrialist Awards for the year 1998/1999 by the Hong Kong Young Industrialists Council and an awardee member of the Hong Kong Young Industrialists Council in November 1998. Mr. Cheuk was also a director of the 32nd board of directors of Yan Oi Tong.

He is the spouse of Ms. Au Corona Ching Mei M.H., father of Ms. Cheuk Heide Oil-gei and brother-in-law of Ms. Au Hung Wai Didy.

**Ms. AU Corona Ching Mei M.H. ("Mrs. Cheuk") (歐靜美)**, aged 62, is our Executive Director, one of our Controlling Shareholders and the legal representative of Shenzhen 3 Wells Watch Company Limited. She is a member of our Remuneration Committee. She is also a director of each of the operating subsidiaries of our Group. She is primarily responsible for overseeing our Group's administrative, human resources and financial management, and assisting in the management of our Group's business.

Mrs. Cheuk has more than 33 years of experience in the watch industry. Prior to joining our Group, she worked in the Finance Department in China Resources Textiles Company Limited from July 1978 to January 1985 and worked as a deputy financial manager in China Resources Silk Co., Ltd from January 1985 to November 1987.

Mrs. Cheuk was awarded the China's Hundred Outstanding Women Entrepreneurs\* (中國百名傑出女企業家) by the China Association of Woman Entrepreneurs\* (中國女企業家協會) in October 2006 and was awarded the Medal of Honour (MH) by the Government of the HKSAR in July 2010. She was a director, the vice chairlady and the chairlady of Yan Oi Tong from 2004 to 2006, 2006 to 2009 and 2009 to 2010 respectively. She was a committee member of the tenth Hubei Municipal Committee of the Chinese People's Political Consultative Conference\* (中國人民政治協商會議湖北省第十屆委員會委員). She is currently a permanent honorary committee member of The Chinese General Chamber of Commerce, Hong Kong and a director of Po Leung Kuk.

Mrs. Cheuk obtained a Diploma of Graduate Gemologist from the Gemological Institute of America in March 2003. Mrs. Cheuk is the spouse of Mr. Cheuk Sin Cheong Clement, mother of Ms. Cheuk Heide Oil-gei and sister of Ms. Au Hung Wai Didy.

\* For identification purposes only

## Biographical Details of the Directors and Senior Management

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. YU Sau Ning Homer M.H. (余壽寧)**, aged 70, is our Independent Non-executive Director, the chairperson of our Audit Committee, and a member of our Remuneration Committee and Nomination Committee. Mr. Yu is responsible for supervising and providing independent judgment to our Board, the Remuneration Committee, the Audit Committee and the Nomination Committee.

Mr. Yu has 44 years of experience in the wholesale and retail markets of wine and spirit, skincare and household products. He has been the chief executive officer of Cheong Hing Store Ltd., Cheong Hing (1917) Limited, Youthful Technology International Ltd. and Youthful Wonder Limited since 1981, 1981, 1989 and 2014 respectively. In June 2016, he founded and became the director of One Belt One Road Eurasia Centre (HK) Limited.

Mr. Yu was awarded the Chevalier de l'ordre national du Merite by the Government of France in June 1996 and was awarded the medal of honour by the Government of the HKSAR in 1999. He was appointed as a member of the eleventh and twelfth National People's Congress HKSAR Representative Elective Committee and was appointed as a committee member of the first Chinese People's Political Consultative Conference of Huangpu, Guangzhou in August 2015. He was also appointed as a member by the Consumer Council for the period between 2003 and 2008. In December 2008, he received the honorary decoration award from the Chamber of Beauty Culture & Cosmetics of All-China Federation of Industry & Commerce. He is currently a member of the Customer Consultative Group of CLP Power Hong Kong Limited, and an elected member of the retailer category of Quality Tourism Services Association Governing Council (QTSA) and the chairman of the Better Business Environment Committee of QTSA. He has been the chairman of the seventh Professional's Committee of Kowloon Federation of Association since June 2015. He has been an honorary life president of the Cosmetic & Perfumery Association of Hong Kong Ltd. since 1996.

Mr. Yu obtained a Degree of Master of Science from the National University of Ireland in April 2003. He was admitted as honorary senior fellow by the Professional Validation Centre of Hong Kong Business Sector (PVCBS) in November 2005, and was the president of the 6th session of the executive committee of PVCBS.

**Mr. ZHAO Zhipeng (趙志鵬)**, aged 39, is our Independent Non-executive Director, the chairperson of our Remuneration Committee, and a member of our Audit Committee. Mr. Zhao is responsible for supervising and providing independent judgment to our Board, the Audit Committee and the Remuneration Committee.

Mr. Zhao has more than eight years of experience in the legal industry. Prior to joining our Group, he worked as a trainee solicitor at Patrick Mak & Tse from July 2011 to December 2013 and as an assistant solicitor in the same firm from December 2013 to March 2016. He became a partner of the said firm since 2016. He has been an independent non-executive director of Kin Pang Holdings Limited (stock code: 1722), a company listed on the Main Board of the Stock Exchange, since November 2017.

Mr. Zhao obtained a Degree of Bachelor of Laws from The East China University of Political Science and Law in July 2006, a Degree of Master of Laws from The Chinese University of Hong Kong in December 2007, a Juris Doctor Degree from the City University of Hong Kong in October 2009 and a Postgraduate Certificate in Laws from the City University of Hong Kong in July 2011. He was admitted to practice law as a solicitor in Hong Kong in December 2013.



## Biographical Details of the Directors and Senior Management

**Ms. YEE Wai Fong Wendy (余惠芳)**, aged 57, is our Independent Non-executive Director and a member of our Audit Committee and Nomination Committee. She is responsible for supervising and providing independent judgment to our Board, the Audit Committee and the Nomination Committee.

Ms. Yee has more than 29 years of experience in finance and accounting areas in the Asia Pacific. Prior to joining our Group, she was a senior auditor of Deloitte Touche Tohmatsu from July 1988 to April 1993. From July 1993 to November 2006 she has served a number of positions in the Motorola Asia Pacific Limited, a multinational telecommunications company listed in the United States, with her last position as a controller for Hong Kong, the Philippines and the business development team of its networks and enterprise business. From December 2006 to April 2010 she has served a number of position in Ecolab Limited, a subsidiary of Ecolab Inc., a company listed in the United States, with her last position as Asia control director. From May 2010 to July 2012 she served as a vice president of finance in Active-Semi International, Inc. From July 2012 to June 2013, she worked as a senior director of finance and accounting, Asia, at Mikli Asia Limited. She then served as a director of finance from April 2014 to June 2017 at Targus Asia Pacific Limited.

Ms. Yee obtained a Degree of Bachelor of Social Sciences from the University of Hong Kong in November 1988 and a Degree of Bachelor of Science from the University of London in August 2002. She further obtained a Degree of Master of Business Administration from the University of Dubuque in December 2002. She has been admitted as a member of the Institute of Chartered Accountants in England and Wales in February 2006, and as an associate of the Hong Kong Institute of Certified Public Accountants since April 1992.

**Dr. LIU Ngai Wing (廖毅榮)**, aged 72, is our Independent Non-executive Director. He is a member of our Remuneration Committee. He is responsible for supervising and providing independent judgement to our Board. Dr. Liu was awarded a Master Degree of Business Administration Degree from Hong Kong Metropolitan University (formerly known as The Open University of Hong Kong) in December 1999. He then obtained a Master of Science degree in Hotel and Tourism Management in The Hong Kong Polytechnic University in November 2001. He further obtained a Master of Science Degree in Global Business from The Chinese University of Hong Kong in December 2002, a PhD Degree from the Hotel and Tourism Management School of The Hong Kong Polytechnic University in October 2008, a Master of Arts Degree in China Studies from Hong Kong University of Science and Technology in November 2011, a Master of Arts Degree in Asia and International Studies from The City University of Hong Kong in February 2013, a Doctor of Business Administration Degree from Curtin University of Technology in January 2013, a Master of Arts Degree in Practical Philosophy from Lingnan University in November 2015, Master of Arts Degree in Chinese Studies from Chu Hai College of Higher Education in October 2017, and a Bachelor of Arts Degree in Chinese Humanities from Hong Kong Metropolitan University in August 2018.

Dr. Liu is an associate of The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Company Secretaries), an associate of The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators), an associate of The Hong Kong Institute of Certified Public Accountants and a fellow of The Chartered Association of Certified Accountants.

## Biographical Details of the Directors and Senior Management

Dr. Liu worked as a chief executive officer and the chairman at Yoshiya International Corporation, Limited (currently known as Capital Estate Limited, Stock Code 193), a company of which shares are listed on the Main Board of the Stock Exchange, from October 1996 to April 2002. He was an executive director of eSun Holdings Limited (Stock Code 571), a company of which shares are listed on the Main Board of the Stock Exchange, from November 1998 to May 2008. He was an independent non-executive director and the chairman of the audit committee of Hang Fung Gold Technology Limited (currently known as 3D-GOLD Jewellery Holdings Limited (“**3D-GOLD**”)), a company of which shares were listed on the Main Board of the Stock Exchange but were subsequently delisted on 9 July 2012, from March 2000 to December 2008. Shares in 3D-GOLD were suspended from trading since 29 September 2008 and it was announced on the same day that Dr. Lam Sai Wing (“**Dr. Lam**”), the then chairman of 3D-GOLD had passed away and that technical breaches of certain loan facilities may arise as a result of Dr. Lam ceasing to be chairman of 3D-GOLD. On 14 October 2008 it was announced that certain wholesale trade receivables of 3D-GOLD might not be recoverable, and a winding-up petition for 3D-GOLD was filed by The Hongkong and Shanghai Banking Corporation Limited on 17 October 2008. The winding-up petition was subsequently adjourned to 13 July 2011 based on the available announcement of 3D-GOLD. The shares of 3D-GOLD were delisted with effect from 9 July 2011 by the Stock Exchange. Since Dr. Liu’s resignation from the board of directors of 3D-GOLD on 5 December 2008, he has been unaware of any further developments in the affairs of 3D-GOLD.

Dr. Liu also acted as the executive director and the chief executive officer of Singapore Hong Kong Properties Investment Limited (currently known as China Minsheng Financial Holding Corporation Limited, Stock Code 245), a company of which shares are listed on the Main Board of the Stock Exchange, from September 2000 to December 2001. He was an independent non-executive director of Daiwa Associate Holdings Limited (currently known as Maxnerva Technology Services Limited, Stock Code 1037), a company of which shares are listed on the Main Board of the Stock Exchange, from September 2004 to December 2015. He was an independent non-executive director of Dorsett Hospitality International Limited (“**Dorsett Hospitality**”), a company of which shares were listed on the Main Board of the Stock Exchange but which were delisted on 16 October 2015, from September 2010 to October 2015. After Dorsett Hospitality was delisted, Dr. Liu continued to be its director until March 2016. He currently holds the position as an executive director at Miranda Company Limited.

### SENIOR MANAGEMENT

**Ms. Pang Yuk Fong (彭玉芳)**, aged 55, is our Company Secretary. She is responsible for the company secretarial matters.

Ms. Pang is an experienced practising certified public accountant in Hong Kong with more than 30 years of professional accounting and company secretarial experience. Ms. Pang is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England and Wales, The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and the Chartered Governance Institute. Ms. Pang holds a Master of Professional Accounting Degree from the Hong Kong Polytechnic University.

**Mr. LAU Yue Man (劉禹文)**, aged 53, is our general manager and a director of Shenzhen 3 Wells Watch Company Limited. He is responsible for overseeing the daily operation of our PRC production plant, and resolving production and products issues.

Mr. Lau has over 27 years of experience in management. Prior to joining our Group, he worked as a general manager in Golden Island Watch Industrial (Shenzhen) Limited\* (金島錶業 (深圳) 有限公司) from June 1994 to December 1996, as a general manager in Han Lin Metal Products Manufactory Limited\* (漢霖金屬製品廠有限公司) from January 1997 to April 2002, and as a technical director in Sutec (H.K.) Limited from August 2002 to January 2014.

\* For identification purposes only

## Biographical Details of the Directors and Senior Management

**Ms. AU Hung Wai Didy (歐紅慧)**, aged 56, is our vice general manager. She is responsible for overseeing research and development and procurement department.

Ms. Au has more than 33 years of experience in the watch industry. She joined 3 Wells Watch Industries Limited in October 1986 as a quality controller and was promoted to purchase clerk in September 1988. She left 3 Wells Watch Industries Limited in June 1996 and rejoined 3 Wells Watch Industries Limited in January 1997 as a purchase and research and development manager, and she is currently the vice general manager (China operation).

She is the sister of Mrs. Cheuk, sister-in-law of Mr. Cheuk Sin Cheong Clement and aunt of Ms. Cheuk Heide Oil-gei.

**Ms. CHEUK Heide Oil-gei (卓凱璣)**, aged 34, is our in-house legal counsel. She is currently responsible for overseeing the sales and marketing and business development, management of our Group's business, and advising on legal matters.

Ms. Cheuk has 9 years of experience in the watch industry. Prior to joining our Group, she worked as a legal intern and paralegal at Vidler & Co. Solicitors from August 2010 to May 2011 and as a solar campaign associate at Environment California from August 2012 to October 2012.

Ms. Cheuk obtained a Degree of Bachelor of Laws from the University of Durham in July 2010 and a Degree of Master of Laws from the Duke University in May 2012. She was admitted to practice as an attorney and counsellor at law in all courts of the State of New York in June 2017.

Ms. Cheuk is the daughter of Mr. Cheuk Sin Cheong Clement and Mrs. Cheuk and the niece of Ms. Au Hung Wai Didy.

# Report of Directors

## REPORT OF DIRECTORS

The Directors present their report and the audited financial statements of the Company and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company and its subsidiaries are principally engaged in the design and development, manufacturing and distribution of watch products on ODM basis for watch manufacturers, brand owners and watch importers across the globe.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 and the financial positions of the Company and of the Group as at that date are set out in the audited consolidated financial statements on pages 59 to 134 of this annual report.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 134 in the annual report. This summary does not form part of the audited consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2022, the revenue attributable to the Group's largest customer accounted for approximately 57.49% (2021: 64.17%) of the Group's total revenue and the revenue attributable to the Group's five largest customers accounted for approximately 88.69% (2021: 86.42%) of the Group's total revenue.

During the year ended 31 December 2022, the costs incurred in respect of the Group's largest supplier accounted for approximately 26.19% (2021: 19.12%) of the Group's total cost of services and materials sold incurred and the costs incurred in respect of the Group's five largest suppliers accounted for approximately 54.38% (2021: 49.65%) of the Group's total cost of services and materials sold incurred.

None of the Directors or any of their close associates, or any shareholder of the Company (who to the knowledge of the Directors own 5% or more of the issued shares of the Company) had any beneficial interest in any the Group's major customers or suppliers during the year ended 31 December 2022.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2022 are set out in note 15 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year ended 31 December 2022 are set out in note 29 to the consolidated financial statements.

# Report of Directors

## DEBENTURES

The Company did not issue any debentures during the year ended 31 December 2022.

## RESERVES

Details of movement in the reserves of the Group and the Company during the year ended 31 December 2022 are set out in the consolidated statement of changes in equity on page 62 and in note 30 to the consolidated financial statements respectively.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

None of the Company or any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

## PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## CONNECTED TRANSACTIONS

During the year ended 31 December 2022, the Group has not entered into any connected transactions or continuing connected transactions that are not exempted under the GEM Listing Rules.

## RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group during the year ended 31 December 2022 are set out in note 36 to the consolidated financial statements. To the best knowledge of the Directors, none of these related party transactions constitutes connected transactions that need to be disclosed under the GEM Listing Rules.

## BUSINESS REVIEW

A review of the Group's business during the year ended 31 December 2022 and analysis of the Group's performance using financial key performance indicators and prospectus of the Group's business are provided in sections headed "Chairman's Statement" on page 4 and "Management Discussion and Analysis" on pages 6 to 11 of the annual report and the notes to the consolidated financial statements.

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to promoting sustainability both in term of business development and impact to the environment. The Group has complied with all the relevant environmental protection law and regulations that have significant impact on the Group's business where the Group is operating. The Group will review its environmental practices from time to time and will consider implementing further measures and practices to enhance sustainability whenever appropriate and possible.

## Report of Directors

A discussion on the Group's environmental policies and performance for the year ended 31 December 2022 is set out in the section headed "Environmental, Social and Governance Report" on pages 36 to 53 of this annual report.

### COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group seeks to uphold high standard of integrity in all aspects of business and is committed to ensure that its affairs are conducted in accordance with applicable laws and regulatory requirements and has formulated and adopted various internal control measures, approval procedures and training within all business units at all levels of the Group. During the year ended 31 December 2022, there has been no violation or breach of relevant laws and regulations that had a significant impact on the Company.

### RELATIONSHIP WITH KEY STAKEHOLDERS

The Group emphasises on maintaining good relationship with its stakeholders and considers it a key element to sustainable business growth.

#### Employees

The Group has always been people-oriented and has attached great importance to human resource management. We attract excellent talents through fair recruitment policy and provide employees with training opportunities, good career development prospect and growth opportunities. From time to time, we offer our employees remuneration packages that are comprehensive and attractive. Some employees may be granted options under the Share Option Scheme in recognition of their contribution. We also value our employee's physical and mental development. Diverse events and activities are organised for the employees for fostering work-life balance and personal growth.

#### Customers

The Group is committed to offering our customers products and services to the best of our ability. We highly value comments and suggestions of our customers and have always maintained effective communications with the customers. We will continue to reach out for current and prospective customers through, inter-alia, on-site visits and major customers satisfaction surveys. We believe that customers' feedback would help us to identify areas of improvement and advance us to achieve excellence.

#### Suppliers

Maintaining good relationship with suppliers is essential to the Group's business performance and growth because suppliers can have direct influence over the quality of the products and services and customer satisfaction. We adopt a "Management Measures for Suppliers" in respect of the supplier selection procedures, quality testing methods and comprehensive appraisal and evaluation system on potential and existing suppliers and their products and performance. We are committed to establishing a close and long-term cooperation relationship with business partners.

### RISK AND UNCERTAINTIES

Our Group's financial condition, results of operations and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

## Report of Directors

### Risks relating to our industry

#### ***We operate in a highly competitive environment and we cannot assure you that we will be able to grow or sustain our competitiveness***

Watch manufacturing in the PRC is highly competitive and fragmented with over 1,000 players. The pricing of and demand for our watches are significantly affected by the intensity of competition we face. Our competitors may have substantially greater financial and technological resources, design and manufacturing capacities and stronger customer and supplier relationships than we do. As a result, we cannot assure you that we may be able to compete effectively with these competitors and the competitive pressures could adversely affect our business and financial condition and results of operations.

#### ***Changes in existing laws and regulations and the imposition of new laws, regulations, restrictions and any other entry barriers in relation to our industry may increase our costs***

We are subject to compliance with various laws and regulations relating to the production and sales of watches in the jurisdictions in which we operate. Failure to comply with these laws and regulations may result in imposition of conditions on or the suspension of sale or seizure of our products, or significant penalties or claims. In the event that the countries in which we operate increase the stringency of such laws and regulations, our operating costs may increase and we may not be able to pass these additional costs onto our customers. Further, in the event that any jurisdiction in which we operate or plan to operate impose any new laws, regulations, restrictions or other barriers to entry, our ability to expand may be limited and our growth and development may be adversely affected.

### Risks relating to conducting business in the PRC

We operate our production facility in the PRC. A substantial part of parts and components are sourced from various suppliers who are mostly Hong Kong companies with production facilities in the PRC. Accordingly, the business, results of operations and financial condition as well as prospects of our Group are subject, to a significant degree, to the economic, political and legal developments in the PRC.

#### ***Political and economic policies of the PRC Government may affect our business and results of operations and may result in our inability to sustain our growth and expansion strategies***

The PRC economy has largely been a centrally planned economy, which differs from other developed economies of the world in many respects, including:

- the degree of the PRC Government's involvement;
- the growth rate and degree of development;
- the uniformity in implementation and enforcement of laws;
- the content of and control over capital investment;
- the control of foreign exchange; and
- the allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC Government has implemented economic reform measures to utilise market forces in the development of the PRC economy. The PRC economy has grown significantly in recent decades, though we cannot assure you that this growth will continue or continue at the same pace.

# Report of Directors

In addition, the PRC Government continues to play a significant role in regulating industries and the economy through policy measured. As such, we cannot assure you that we will not be adversely affected by the measures that are under continuous adjustments. Also, the PRC Government has implemented various measures to guide the allocation of resources. Some of these measures may benefit the overall economy of the PRC, but may also have a negative impact on the watch industry or on us. For example, our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

## Financial risks

Details of financial risks are set out in note 38 to the consolidated financial statements.

## DIRECTORS

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

### Executive Directors

Mr. CHEUK Sin Cheong Clement (*Chairman*)

Ms. AU Corona Ching Mei M.H.

### Independent non-executive Directors

Mr. YU Sau Ning Homer M.H.

Mr. ZHAO Zhipeng

Ms. YEE Wai Fong Wendy

Dr. LIU Ngai Wing

Pursuant to Article 84(1) of the Articles, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation and shall be eligible for re-election. Every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

## CHANGES IN INFORMATION OF DIRECTORS

There is no change in the information of Directors, which is required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules during the year ended 31 December 2022.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company and/or any of its subsidiaries, which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 22 to 26 of the annual report.

## EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in notes 10 and 11 to the consolidated financial statements, respectively.



## Report of Directors

### **DIRECTORS' INTEREST IN SIGNIFICANT CONTRACTS**

Save as the related party transactions and connected transactions disclosed in note 36 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2022.

### **DIRECTOR'S INTEREST IN TRANSACTIONS, ARRANGEMENT AND CONTRACTS OF SIGNIFICANT**

Save as disclosed in this annual report, no transactions, arrangements or contracts of significance that is significant to the Group's business to which the Company or any of its subsidiaries was a party and in which a person who at any time was a Director or his connected entity had, directly or indirectly, a material interest subsisted at any time during the year ended 31 December 2022.

### **CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Saved as disclosed in this annual report, no contract of significance has been made between the Company or any one of its subsidiaries and a Controlling Shareholder or its subsidiaries during the year ended 31 December 2022 or as at the date of this annual report.

### **PERMITTED INDEMNITY PROVISIONS**

Pursuant to Article 164 of the Articles, the Directors, secretary and other officers and every Auditor for the time being of the Company and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company and everyone of them, and everyone of their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Such provision was in force during the year ended 31 December 2022. In addition, the Company has also maintained Directors' and officers' liability insurance during the year ended 31 December 2022, which provides appropriate cover for the directors and officers of the Group.

### **MANAGEMENT CONTRACTS**

As at 31 December 2022, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

# Report of Directors

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Apart from as disclosed under the paragraph headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures or any associated corporation" below, at no time during the year ended 31 December 2022 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OR ANY ASSOCIATED CORPORATION

As at 31 December 2022, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares of the Company:

Name of Director	Capacity/Nature of Interest	Long position	
		Number of ordinary shares	Percentage of total number of shares
Mr. Cheuk Sin Cheong, Clement ("Mr. Cheuk") (Note)	Interest in controlled corporation	93,000,000	56.36%
Ms. Au Corona Ching Mei M.H. ("Mrs. Cheuk") (Note)	Interest in controlled corporation	93,000,000	56.36%

Note: 93,000,000 shares of the Company are registered in the name of Million Easy Enterprises Ltd. ("Million Easy"), the entire issued share capital of which are legally and beneficially owned by Mr. Cheuk and Mrs. Cheuk in equal shares. Under the SFO, both Mr. Cheuk and Mrs. Cheuk are deemed to be interest in all the shares of the Company held by Million Easy.

## Report of Directors

Long position in the ordinary shares of associated corporation:

Name of Director	Name of associated corporation	Capacity/ Nature of Interest	Long position	
			Number of ordinary shares	Percentage of total number of shares
Mr. Cheuk	Million Easy	Beneficial Interest	1	50%
Mrs. Cheuk	Million Easy	Beneficial Interest	1	50%

Save as disclosed above, as at 31 December 2022, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2022, other than the Directors and chief executive of the Company, the following persons/entities have an interest or a short position in the shares or the underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO:

Long position in shares of the Company:

Name	Capacity/Nature of Interest	Long position	
		Number of ordinary shares	Percentage of total number of shares
Million Easy	Beneficial Interest	93,000,000	56.36%
China New Economy Fund Limited	Beneficial Interest	32,100,000	19.45%

Save as disclosed above, as at 31 December 2022, the Directors are not aware of any other persons/entities (other than a Director and chief executive of the Company) who had, or were deemed or taken to have any interests or short position in any shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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

Neither the Company, nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31 December 2022. The Company had not redeemed any of its listed securities during the year ended 31 December 2022.

# Report of Directors

## COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any of its respective associates has engaged in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the year ended 31 December 2022.

## CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 12 to 21 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules during the year ended 31 December 2022 and up to the date of this annual report.

## DIVIDEND

The Board do not recommend the payment of a final dividend for the year ended 31 December 2022.

## DONATION

During the year ended 31 December 2022, the Group made charitable and other donations amounting to approximately HK\$1.83 million (2021: HK\$0.98 million).

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the Independent Non-executive Directors an annual confirmation in writing of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all the independent non-executive Directors to be independent.

## AUDITOR AND CHANGES IN THE PRECEDING THREE YEARS

The consolidated financial statements of the Group for the year ended 31 December 2021 was audited by HLB Hodgson Impey Cheng Limited ("HLB") who resigned on 28 December 2022. The Board appointed Confucius International CPA Limited ("**Confucius**") as the auditor of the Company with effect from 28 December 2022 to fill the casual vacancy following the resignation of HLB, and to hold office until the conclusion of the next annual general meeting of the Company, details of which was set out in the announcement of the Company dated 28 December 2022.

Save as disclosed above, there has been no other change of auditors for the preceding three years.

ON BEHALF OF THE BOARD

**Mr. CHEUK Sin Cheong Clement**

*Chairman*

Hong Kong, 24 March 2023

# Environmental, Social and Governance Report

## OVERVIEW

### (I) Purpose

Hanvey Group Holdings Limited (the “**Company**”), together with its subsidiaries (collectively, the “**Group**”), successfully listed on the GEM of the Stock Exchange of Hong Kong Limited (“**HKEx**”) on 12 July 2018. In accordance with the requirements of HKEx, listed companies are required to provide an Environmental, Social and Governance Report (“**ESG Report**”). The objective of this ESG Report is to highlight the Group’s ESG performance for the purpose of assisting all stakeholders in understanding the Group’s ESG concepts and practices in achieving sustainable development for the future.

### (II) Reporting Period

This report is for the period from 1 January 2022 to 31 December 2022 (the “**2022 Reporting Period**”).

### (III) Scope of ESG Report

The Group is principally engaged in the design and development, manufacturing and distribution of watch products on original design manufacturing (“**ODM**”) basis for watch manufacturers, brand owners and watch importers across the globe. The products are produced from our manufacturing facility in the People’s Republic of China (the “**PRC**”) (the “**Factory**”). Each business segment of the Group has a different impact on the environment and society. For the purpose of this ESG Report, the Group herein review its core business activities and operations in terms of their environmental and social objectives, policies and practices, and their impacts and performances.

This ESG Report covers the main operations and activities of the Factory and our administrative office (the “**Office**”) located in Hong Kong.

### (IV) Basis of Preparation

This ESG Report complies with the disclosure requirements set out in the ESG Reporting Guide (“**ESG Reporting Guide**”) as outlined in Appendix 20 of the GEM Listing Rules and Guidance Governing the Listing of Securities on HKEx. The content of this ESG Report includes two main subject areas, as outlined and required by the ESG Reporting Guide, namely Area A – Environmental and Area B – Social and further includes the disclosure of climate-change related issues, which have or may impact our Group.

This ESG Report, which has been reviewed and approved by the Board of Director of the Company (the “**Board**”) covers, reviews and reports the core business operations and activities of the Group and follows the principles of materiality, quantitative, balance, and consistency in disclosing the relevant statistics and information. This ESG Report has compiled with the “comply or explain” provisions set out in the ESG Reporting Guide.

- **Materiality:** Important and relevant information to stakeholders on different ESG aspects is covered in the Report. A materiality assessment was conducted to determine material ESG issues and the results of the assessment have been approved by the Board.
- **Quantitative:** The relevant standards, methodologies and assumptions used to prepare the quantitative information is disclosed, as appropriate. Quantitative information is provided with narrative and comparative figures, where possible.
- **Consistency:** Consistent methodologies are used to prepare and presents ESG data in this ESG Report, unless otherwise specified, to allow for meaningful comparisons.
- **Balance:** The information is presented without the inappropriate use of selections, omissions or other forms of manipulation that would influence a decision or judgment of the reader.

# Environmental, Social and Governance Report

## (V) Corporate Goals and Visions

The Group's vision is to be a leading manufacturer and an "one-stop service" provider on a sustainable basis of high-quality watches in both the PRC and worldwide. We are committed to providing these products with a reasonable return on investments to our shareholders, whilst being a socially and environmentally responsible company and providing our employees a safe, healthy, and pleasant work environment.

## (VI) Governance Structure

Throughout the 2022 Reporting Period, the Group maintained the same ESG management structure and process as the last reporting period (from 1 January 2021 to 31 December 2021, "2021" or "2021 Reporting Period"). The Board is responsible for formulating and setting goals and targets, approving strategic direction and policies, and monitoring performance including ESG issues. Our ESG strategies, management policy and approach are based on compliance with the relevant legal and regulatory requirements, the principle of sustainability and opinions from our key stakeholders. The Group's visions and goals, and the ESG management policy and approach can be summarized in the following statements:

1. The Group is committed to be successful in undertaking its business, whilst providing strong returns to our investors and supporters, a healthy and safe work environment to our employees and sustainable developments for the local communities and the Group.
2. The Board has the overall responsibility for the Group's ESG strategy and reporting. The Board is responsible for evaluating and determining the Group's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. Our Management are delegated the responsibility of coordinating the implementation of the Group's environment, employment and service quality assurance policies.
3. The Board leads and provides direction to Management by instituting ESG policies and initiatives, supervising their implementation and monitoring ESG performance. The Board continues to explore ways to further strengthen the ESG governance of the Group. The Board reviews regularly the Group's ESG affairs which include environmental protection, employment and labour practices, operating practices, and community investment, and implements appropriate measures to enhance the ESG performance of the Group.

Overall, the Group takes an active role in ensuring sustainable and environmentally friendly production and operations by employing various measures, which are compliant with relevant laws, operating practices and standards. The Group continues to uphold our established environmental protection and management system.

# Environmental, Social and Governance Report

## STAKEHOLDER COMMUNICATION

The Group actively engages with stakeholders to identify ESG issues that need to be addressed. Stakeholder engagement is the process to identify parties who may be affected by the decisions the Group makes. The Management had performed the following:

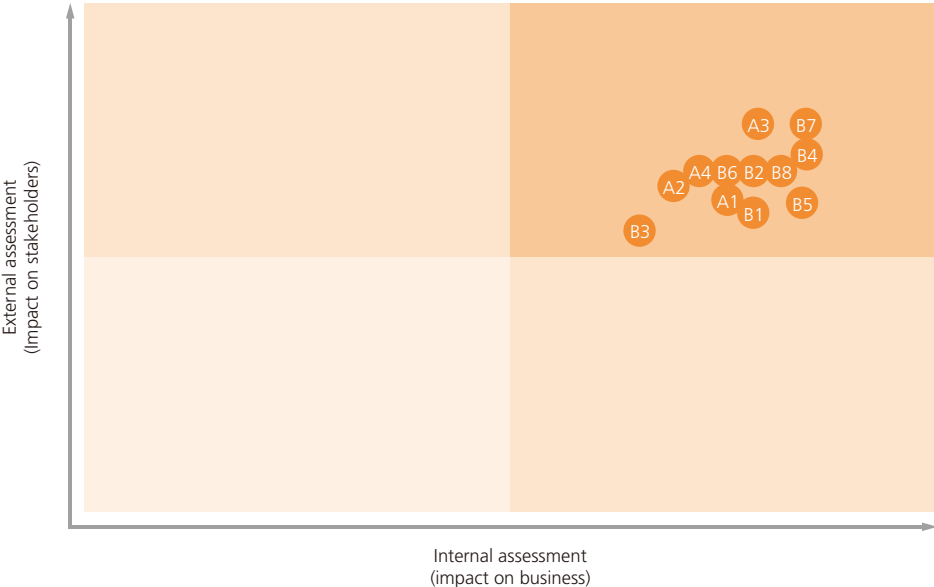
- generated a full and complete list of stakeholders by consulting various departments within the Group;
- relied on the ongoing communication channels and the day-to-day interactions and meetings (whenever deemed necessary) to engage these stakeholders; and
- reduced the list of stakeholders into a workable size, and completed the Stakeholder Influence – Dependency Matrix to work out a list of key stakeholders.

<b>Stakeholders</b>	<b>Communication channels</b>
Government/regulatory organisations	<ul style="list-style-type: none"><li>• Announcements, circulars and other annual, interim and quarterly reports</li></ul>
Shareholders/investors	<ul style="list-style-type: none"><li>• Information disclosed on the HKEX website and corporate website</li><li>• Annual general meeting and other shareholders’ meetings</li></ul>
Employees	<ul style="list-style-type: none"><li>• Employee performance evaluation</li><li>• On-the-job training</li><li>• Internal e-mail</li></ul>
Customer	<ul style="list-style-type: none"><li>• Corporate website</li><li>• Customer service hotline</li></ul>
Community	<ul style="list-style-type: none"><li>• Industry events</li><li>• Corporate social responsibility activities</li></ul>

# Environmental, Social and Governance Report

## MATERIALITY ASSESSMENT

For 2022, the Group and the stakeholders have identified the following material areas and aspects:



### Social

Environmental	Employment and Labour Practices	Operating Practices	Community
A1. Emissions	B1. Employment	B5. Supply Chain Management	B8. Community Investment
A2. Use of Resources	B2. Health and Safety	B6. Product Responsibility	
A3. Environment and Natural Resources	B3. Development and Training	B7. Anti-corruption	
A4. Climate Change	B4. Labour Standards		

Through the Group’s established management structure, process, policies and guidelines as aforementioned and described, the above ESG material areas and aspects have been strictly managed and monitored and herein are summarized below:



## A. ENVIRONMENT AREAS AND ASPECTS

### Environment Areas Overview

The Group, being one of the major watch manufacturers in Hong Kong, is committed to promoting sustainability both in terms of business development and impact to the environment. We embrace principles and practices that help minimise our carbon footprint, energy consumption and climate change impacts.

The Factory of the Group in Shenzhen is regulated by the “Environmental Protection Law of the People’s Republic of China”, the “Solid Waste Pollution Prevention and Control Law of the People’s Republic of China”, the “Cleaner Production Promotion Law of the People’s Republic of China” and the “Atmospheric Pollution Prevention and Control Law of the People’s Republic of China” and other environmental protection regulatory standards issued by the central and local governments.

During the 2022 Reporting Period, the Group is not aware of any material non-compliance of the PRC environmental protection laws and regulations.

Apart from strictly complying with laws and regulations, the Management will identify and evaluate the environmental aspects of our activities that are most likely to give rise to significant environmental impacts. The Management will also communicate with other Stakeholders and identify the environmental aspects. All the activities that are likely to cause adverse environmental impact or improve general sustainability will be reviewed and monitored. These activities include:

- Gas emissions;
- Water discharge;
- Waste disposal;
- Land contamination;
- Noise pollution;
- Global warming;
- Sustainability and the efficient use of raw materials, energy, water and other natural resources;
- Other local environmental issues; and
- National and local laws and regulations.

At least once every year, the Management will review the environmental aspects, and regularly monitor if any new laws and regulations are implemented.

# Environmental, Social and Governance Report

## A1. Emissions and wastes

### (i) Air pollutants and greenhouse gas emissions

During the 2022 Reporting Period, air pollutants emitted from the Group such as sulphur oxides, nitrogen oxides and particulate matter were mainly generated from the use of motor vehicles.

To minimise the adverse impact on the environment, all vehicles and machinery of the Group are driven by unleaded petrol and electricity respectively.

The main source of the Group's air pollutants and greenhouse gas emissions is derived from direct emission from the mobile combustion sources ("**Scope 1**") and indirect emission from acquired electricity emissions ("**Scope 2**").

Type of emission	Unit	Emissions		Charges
		2022	2021	
Air pollutants				
Nitrogen oxides	kilograms	<b>12.63</b>	11.53	9.54%
Sulphur oxides	kilograms	<b>0.32</b>	0.30	6.67%
Particulate matter	kilograms	<b>0.93</b>	0.85	9.41%
Greenhouse gas emissions				
Scope 1	Tonnes CO <sub>2</sub> e	<b>58.34</b>	54.71	6.63%
Scope 2	Tonnes CO <sub>2</sub> e	<b>109.19</b>	110.24	-0.95%
Total emissions	Tonnes CO <sub>2</sub> e	<b>167.53</b>	164.95	1.56%
Emission intensity	Per million of revenue	<b>0.61</b>	0.81	-24.69%

In the coming year, the Group targets to at least maintain and if possible, continue to reduce its air pollutants and greenhouse gas emissions by 1–2%.

### (ii) Hazardous and non-hazardous waste

Waste production is mainly attributed to the discarded packaging materials and domestic wastes of the office; therefore, hazardous wastes produced are immaterial. Our non-hazardous wastes are disposed off at the refuse collection points set on the premise of the industrial park where our Factory and office are situated. The Group had conducted an environmental impact assessment on the production facilities, and the result indicated that our emissions of air pollutants, greenhouse gases, water, sewage and non-hazardous wastes comply with the PRC regulations.

The following measures have been implemented by the Group:

- duplex printings and reuse single-sided printed papers,
- use durable tableware instead of non-recyclable or disposable ones in the staff canteen in PRC; and
- provide reusable face masks and protective caps to staff.

# Environmental, Social and Governance Report

## (iii) Sewage

Domestic sewage and production sewage account for our wastewater generation. During the 2022 Reporting Period, 0.23 tonnes of waste water have been recycled. Domestic sewage is discharged into the municipal sewage pipeline network for processing.

To ensure that the sewage discharge meets the regulatory standard, production sewage is centralised and collected by qualified service providers regularly. We also monitor our sewage discharge to ensure that no hazardous effluents are discharged into the neighbourhood.

## A2. Use of Resources

The Group is proactive in seeking opportunities to minimise the negative impact of its business activities on the environment. In order to reduce the use of resources, the Group actively implements measures in energy conservation and pollution reduction.

### (i) Electricity & Fuel Consumption

The major energy consumption of the Group in its daily operations is the electricity consumed in the operations. The Group has formulated rules and regulations to achieve the goal of electricity saving and efficient consumption. The relevant specific measures are as follows:

- turn off all unnecessary lighting, air conditioner and other office equipment in office areas and conference rooms when not in use;
- maintain the indoor temperature at an optimal, comfortable level to conserve energy; and
- enhance the maintenance and overhaul of equipment to maintain the best condition of all electronic equipment for effective use of electricity.

The following table recorded and compared the resultant energy consumption of the Group for the 2022 Reporting Period and the 2021 Reporting Period:

	Unit	Usage		
		2022	2021	Changes
Electricity				
Office	kWh	56,051	55,048	1.82%
Factory	kWh	211,450	217,603	-2.83%
Total	kWh	267,501	272,651	-1.89%
Intensity (kWh/HK\$1M revenue)		981.46	1,333.29	-26.39%

Compared to the 2021 Reporting Period, the total utilization of electricity decreased by 1.89% in the 2022 Reporting Period. The intensity has decreased by 26.39% in the 2022 Reporting Period due to the decrease in production.

In 2022, the Group utilised fossil fuels, specifically 21,933 litres of petrol for the use of passenger vehicles owned by the Group in the PRC and Hong Kong.

## Environmental, Social and Governance Report

The following table recorded and compared the petrol consumption of the Group in the PRC and Hong Kong for the 2022 Reporting Period and the 2021 Reporting Period.

	Unit	Usage		Changes
		2022	2021	
Petrol				
The Group	Litre	<b>21,933.00</b>	20,569.84	6.63%
The Group	kWh	<b>212,560.73</b>	199,349.84	6.63%
Intensity (kWh/HK\$1M revenue)		<b>779.88</b>	974.84	-20.00%

For the coming year, we will continue to encourage and monitor our employees on energy saving practices, and target to lower the energy consumption by 1–2%.

### (ii) Water

The main business of the Group is manufacturing and distribution of watch products on ODM watches, which do not rely heavily on energy consumption or water resources and do not have any issue in sourcing water. Water usage in both our Hong Kong and the PRC operations is mainly due to domestic consumption. In the process of quality checking (watches' water resistance test), only limited amount of water is used while the assembly lines do not produce any industrial sewage. To reduce consumptions, water is reused whatever possible.

The following table recorded and compared the water consumption of the Group for the 2022 Reporting Period and the 2021 Reporting Period:

	Unit	Usage		Changes
		2022	2021	
Water	Tonnes	<b>1,502</b>	1,851	-18.85%
Intensity (Tonnes/HK\$1M revenue)		<b>5.51</b>	9.05	-39.12%

The Group relies on city water supply for both industrial production and daily usage and we do not have any problem on sourcing of our water needs. In comparison to the 2021 Reporting Period, the Group recorded a decrease of approximately 18.85% in freshwater consumption during the 2022 Reporting Period.

For the coming year, we will continue to mobilize our staff and workers to save freshwater consumption and target to reduce our freshwater consumption by 1–2%.

# Environmental, Social and Governance Report

## (iv) *Packaging materials*

The Group's major product is watch, where most of the packaging materials are used for the presentation of products. During the 2022 Reporting Period, the packaging materials consumed by the Group and its intensity are as follows:

The following table recorded and compared the usage of packaging materials of the Group for the 2022 Reporting Period and the 2021 Reporting Period:

Type	Unit	Usage		
		2022	2021	Changes
Paper	Tonnes	1.72	1.70	1.18%
Gift box	Boxes	52,505	51,904	1.20%
Plastic packing materials	Pieces	106,754	8,801	1,212.98%

In comparison to the 2021 Reporting Period, the Group recorded an increase of usage of paper by 1.18% and gift boxes by 1.2%.

## (v) *Environmental targets setting*

FY 2022	Reviewed the Group's past environmental performance
FY 2023	Explore improvement methods and resources available
	Develop measures and set targets
FY 2024 onwards	Evaluate and monitor performance against baseline and targets regularly

### A3. *Environment and Natural Resources*

The Group's business operations and activities do not create significant environmental adverse impact and hazards. As a responsible corporation, we have implemented our environmental protection policy and have complied with all the national and local environmental laws, rules and regulations, and industry standards. We are committed to conserving natural resources in order to reduce their negative impact on the environment as well as saving operational costs. We cooperate with the local government agencies and support environmental organizations' activities to build a "green" society. The Group has also implemented green purchasing practices and best practice technologies to conserve natural resources where applicable.

During the 2022 Reporting Period, freshwater, fossil fuels, electricity and paper-based packaging materials for normal production operation were the key elements which were considered to have an impact on the environment. We have continued to support all measures that are laid down in our Environmental Policy and Measures to reduce, reuse, recycle, and replace as far as possible and practicable. The Group did not receive any warning or complaint notice from any governmental environmental agencies, clients or business partners for the violation of any environmental rules and regulations, the act of polluting the environment or causing any environmental troubles. For the coming year, we will continue to achieve zero complaints and no pollution occurrences, and to explore new avenues and means to accomplish our goals of conserving natural resources and protecting the environment.

### A4. *Climate Change*

We take a holistic view on the impact, risk and associated potentials associated with climate change and sustainability. In our industry, we regard ourselves as a relatively passive participant in these issues with due regard to our scale of operation and the degree of participation in product design, usage and maintenance. We focus on due diligence in terms of adhering to the ideals and principles of sustainability which had long been embedded in our sourcing process. Through constant communications, regular negotiations and reviews, our teams strive to meet the sustainability objectives set forth by our Board. Our products are required to meet the often stringent and demanding standards and specifications, thus limiting the flexibility of our design in response to climate change risks. Abide these limitations; we believe our effort has a positive influence on the overall management of climate risks.

# Environmental, Social and Governance Report

## B. EMPLOYMENT AND LABOUR PRACTICES

### Social Areas Overview

The Company's success relies on the continued support of its dedicated workforce, the most valuable asset for sustaining business. The Group respects and cares for our employees by creating a delightful and safe workplace, as well as providing training opportunities.

#### **B1. Employment**

We have complied with the Employment Ordinance in Hong Kong and the Labour Law of the PRC in all labour-related issues which include compensation, working hours, rest periods, recruitment and promotion, dismissal procedures, equal opportunity, diversity and anti-discrimination.

The Company is committed to creating a working atmosphere free of discrimination and harassment. Discriminatory acts or motives in all phases of employment on the grounds of nationality, physical ability, gender, age and any other legally protected status are strictly prohibited in the Group. Employees are encouraged to report any unlawful discrimination or any form of harassment. The Group investigates expeditiously and takes appropriate corrective actions once we have confirmed the allegations.

In addition to performance bonuses and statutory benefits, the Group offers the employees other benefits, which include healthcare benefits, maternity and paternity leave, marriage leave, and birthday leaves, etc. On top of the compulsory social insurance under the Labour Law in the PRC, employees of the Group in the PRC are entitled to annual health examinations.

The Group strives to maintain the employee turnover rate at an acceptable level so as to facilitate the accumulation of professional skills and experience.

During 2022 the Reporting Period, the Group is not aware of any material non-compliance of the following rules and regulation which govern compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity and discrimination:

- Employment Ordinance of HKSAR
- Labour Law of the PRC
- Law of the PRC on the Protection of Persons with Disabilities
- Race Discrimination Ordinance
- Sex Discrimination Ordinance
- Family Status Discrimination Ordinance

# Environmental, Social and Governance Report

Employment of the Group:

For the year ended 31 December 2022, the Group had the following employment breakdown:

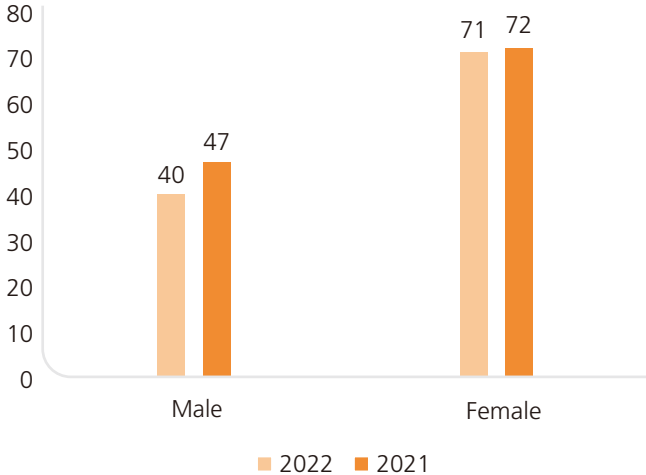


Figure 1: Number of Employee by Gender

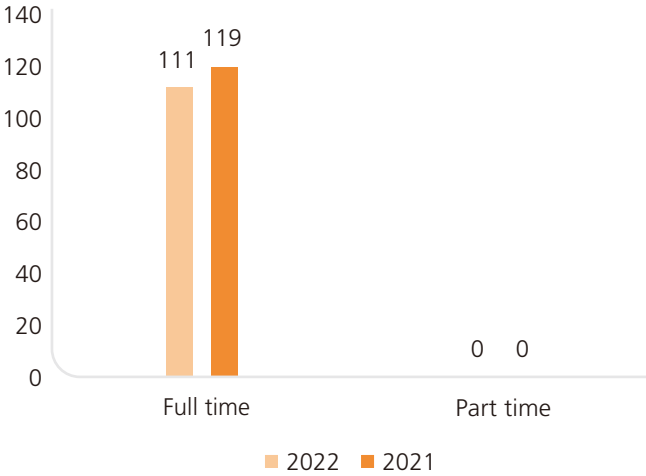
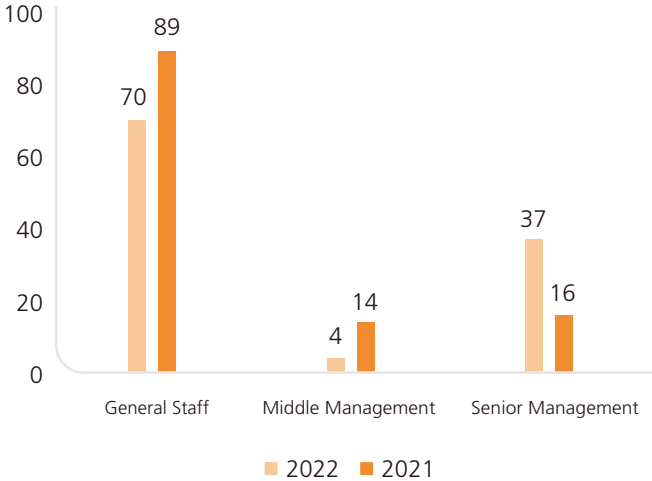
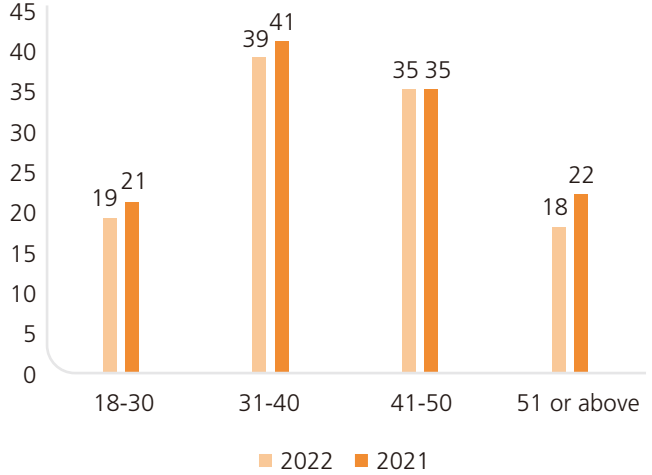


Figure 2: Number of Employee by Employment Type

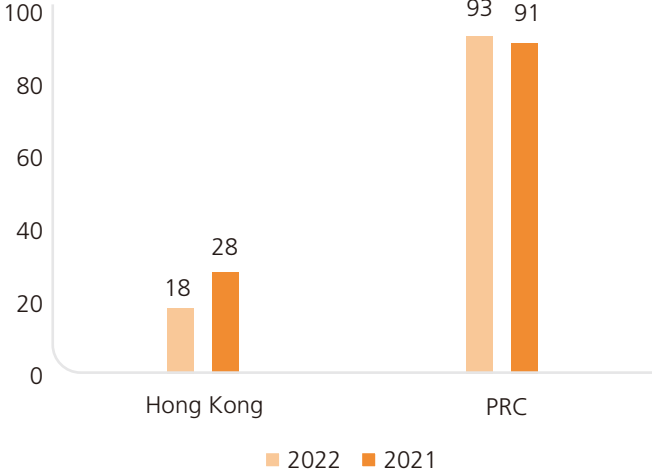
# Environmental, Social and Governance Report



**Figure 3: Number of Employee by Employment Role**



**Figure 4: Number of Employee by Age**



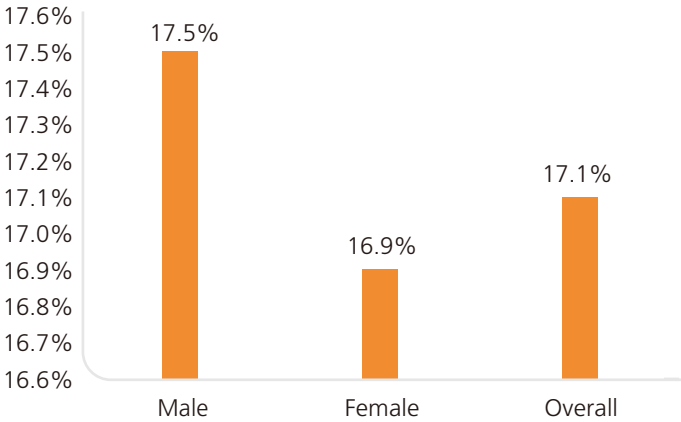
**Figure 5: Number of Employees by Geographical Region**



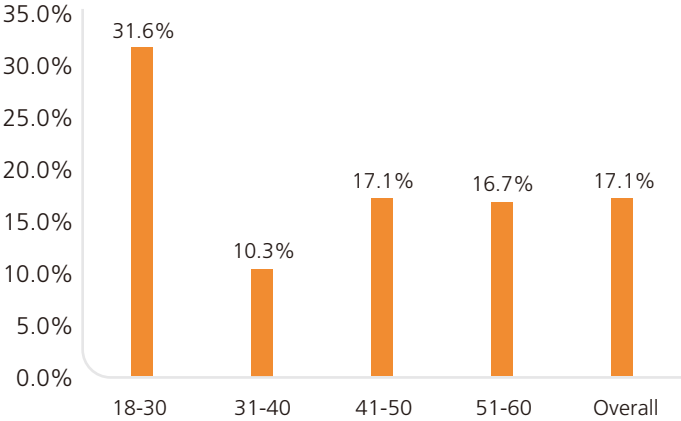
# Environmental, Social and Governance Report

Employment Turnover of the Group:

For the 2022 Reporting Period, a total of 19 employees left for various reasons which include personal and further career development. A breakdown of the employment turnover rates of the Group is shown below:

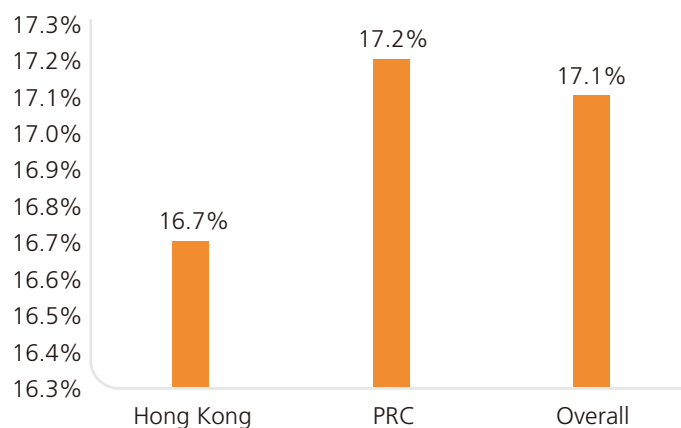


**Figure 6: Employee Turnover Rate by Gender**



**Figure 7: Employee Turnover rate by Age**

# Environmental, Social and Governance Report



**Figure 8: Employee Turnover rate by Geographical**

## B2. Health and Safety

The Group proactively works to reduce injury risks and occupational diseases by establishing related management systems and organising safety training for its workforce.

The Group aims to ensure a safe occupational environment and manage health and safety risks at our production facilities. Warning signs are posted at prominent positions, with potential health impacts, handling procedures and preventive measures. Personal protective equipment such as safety gloves, masks and safety goggles are provided and required at work. Evaluation of safety practices is conducted on a regular basis. During the 2022 Reporting Period, the Group is not aware of any non-compliance of all the relevant laws and regulations related to providing a safe environment and protecting employees from occupational hazards, including the Hong Kong’s Occupational Safety and Health Ordinance, as well as Production Safety Law and Provisions on the Supervision and Administration of Occupational Health at Work Sites of the PRC.

Occupational health and safety statistics	2022	2021	2020
Number of lost days due to work injury	Nil	Nil	Nil
Number of work-related fatalities	Nil	Nil	Nil
Number of work injuries	Nil	Nil	Nil

# Environmental, Social and Governance Report

## **B3. Training and Development**

The Group aims at providing suitable and valuable opportunities for our talented employees. The Group assesses each employee at the end of every year on work performance, attitudes and other key performance indicators. The appraisal results are used as one of the considerations in promotion, job title and remunerations. Through this reviewing process, the employees can make corresponding improvements and discuss their training needs with direct supervisors so that their potential can be realised to the fullest.

The Group also subsidises the employees for taking up external training courses, which facilitates their personal and the Group's development. The Company is committed to providing training opportunities for all levels of employees.

The Group and Management are dedicated to the continuous development of our employees' capabilities, and we value the personal and professional growth of our employees. By fostering a culture of continuous learning, we seek to cultivate and retain our best talents and maintain our competitive positioning in the market.

During the 2022 Reporting Period, 1 general grade staff has attended 5 hours of training on In-House billing system. The percentage of employees trained is 0.90% with 0.05 average training hours per employee. Factory workers are provided with mainly on-the-job training in relation to craftsmanship and occupational safety and health. All Directors have attended training in accordance with the best practices of the Corporate Governance Code and legal and regulatory updates.

## **B4. Labour Standards**

The Group is cautious about preventing prohibited labour practices such as child or forced labour recruitment. We ensure compliance in our operations by adopting strict labour standards and internal policies against child or forced labour. For instance, the Group ensures that all newly recruited employees are over 18 years old through verifying their identification documents. In addition, labour contracts are signed based on mutual agreement between the Group and employees. During the year, the Group is not aware of any non-compliance of the laws and regulations listed below:

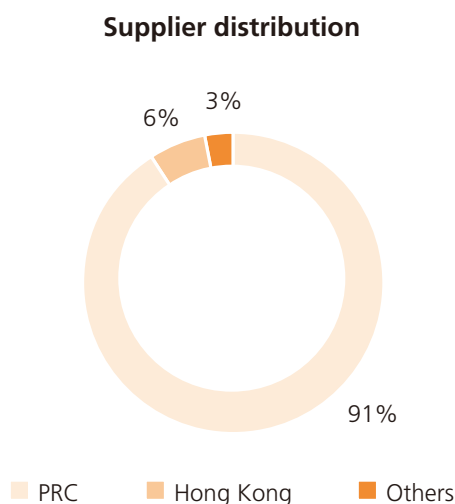
- Employment Ordinance, Hong Kong
- Labour Law of the PRC
- Law of PRC on the Protection of Persons with Disabilities

# Environmental, Social and Governance Report

## B5. Supply Chain Management

By having stringent supply chain management, we ensure our product quality and maintain our competitiveness in the market. The Group also strives to ensure that the suppliers will provide sufficient after-sales services, one of the prerequisites of the business relationship. Moreover, the Group will request the suppliers to comply with the relevant legislation when supplying goods and services to the Group. The Group conducts annual evaluations of its suppliers to ensure that quality is maintained and that prices paid for goods and services provided remain competitive. We only procure raw materials from suppliers who fulfilled our selection criteria. In order to review the suppliers' performance, an assessment is conducted half-yearly. Suppliers with unsatisfactory performance or not up-to-standard are removed from our supplier list.

During the 2022 Reporting Period, the Group has 551 suppliers, of which approximately 91% are located in Mainland China.



### (i) Sustainable Procurement

The Group also expects the suppliers to meet its standards in terms of environment, society, corporate governance, business ethics, etc. The Group will conduct thorough due diligence before establishing any long-term business relationship with potential suppliers. Due diligence is conducted to evaluate the environmental and social risks of the suppliers' operation and business to ensure that the suppliers comply with trade laws, relevant environmental and social regulations, and the Group's requirements. Any material violation of laws and regulations may lead to the termination of supplier contracts.

The Group strives to minimise the potential environmental and social risks in the supply chain through the above approaches. Additionally, the Group endeavours to support local economies and prioritise procurement from local and regional suppliers to lower the carbon footprint during transportation. The Group also prioritises suppliers that use environmentally preferable products and services during the selection process. The Group will continue to review its supply chain periodically with regard to the suppliers' performance and environmental and social standards.

## **B6. Product Responsibility**

### *(i) Customer Satisfaction*

We respect customers' feedback as it is critical in providing the finest quality products and services. We also maintain effective communication with our customers to meet their expectations. To achieve so, we implement a set of standardised customer complaint handling procedures to handle complaints in a timely and professional manner. Corresponding departments, including the Quality and Production Engineering Department, is in charge of identifying problems to maintain product quality. The Sales Department is responsible for communicating with the customers promptly concerning their complaints. Rectification or preventive measures will be taken if applicable after investigation. During the year, there are no complaints have been received against our sales and after-sales services.

### *(ii) Quality assurance*

The Group is committed to providing high-quality stainless-steel watches with an extensive range of designs and specifications (sport, fashion, classic, diamond, etc). The Group has obtained the ISO 9001 certification back in 1996. The production site of the Group has been certified with ISO 9001:2015 Quality Management System in 2017.

To ensure ongoing compliance with the requirements listed in ISO 9001, evaluations on our performance are carried out at least once a year. To ensure the provision of quality products to customers, a series of stringent internal quality control procedures are performed throughout the watch manufacturing process which include inspection of raw materials, semi-finished products and finished products. Quality check on the watch parts and components before assembly, final watch products during productions and packaged final watch products before shipments on a sampling basis are performed. Any unqualified products are returned for correction.

During the 2022 Reporting Period, no complaints have been received against the quality of our products and no products have been recalled due to safety and health problem. A product recall handling procedure is in place for handling any products with quality issues and to ensure the recall process is effective and efficient. Recalled or defective products are examined. To assure all products are up to standard, they are repaired when necessary. Regular sales meeting with all relevant departments is also held to evaluate and discuss about precaution measures. To assure all products are up to standard, products with quality issues will be recalled and repaired before returning to the customers.

# Environmental, Social and Governance Report

## *(iii) Data privacy and intellectual properties protection*

The Group values the data security and privacy of our customers and employees. The Group collects information from the suppliers and the customers for different purposes and takes appropriate procedures to ensure that the information collected is solely for lawful and relevant purposes. The Group sets out data privacy requirements in the Company's policies, under which customers' and suppliers' data will be used exclusively for matters relating to the Group's operation only. The Group strives to ensure that all the collected data is free of unauthorised or accidental access, processing, erasure or other use.

The Group also values intellectual property rights. A set of policies and regulations concerning information security are in place to avoid data leakage and safeguard cybersecurity. All office software in the Group's computers is procured from authorised and copyright holders only.

During the 2022 Reporting Period, the Group is not aware of any incidents of non-compliance with laws and regulations, such as the Trade Marks Ordinance of Hong Kong and Patent Law of the PRC, that have a significant impact on the Group concerning health and safety, labelling and privacy matters relating to products.

## **B7. Anti-corruption**

The Group adopts a zero-tolerance policy on bribery, extortion, fraud and money laundering. It is also the responsibility of all the employees to maintain ethical behaviour. The Group has established a code of conduct for the employees. All our employees who include the Directors, must adhere to the ethical standards, values and legal and regulatory requirements. A whistleblowing policy is also in place to encourage the employees to report any suspicious cases of unethical behaviours to the Human Resources Department or the Management orally or in writing. Any matters of genuine concern are to be thoroughly investigated, and actions will be taken accordingly. As part of the orientation process, a copy of the employee handbook is distributed to new employees to clearly explain the policy regarding the acceptance of benefits.

During the 2022 Reporting Period, the Group is not aware of any non-compliance with the Company Law of the PRC, the Anti-Unfair Competition Law of the PRC and the Hong Kong Prevention of Bribery Ordinance and any other relevant laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering. There is no legal case regarding corrupt practices brought against the Group or its employees concluded during the year ended 31 December 2022.

## **B8. Community**

The Group has always strived to embed social responsibility in its corporate culture by upholding the virtual of "taking from society and giving back to society". The focuses of the Group's community investment are social welfare and cultural promotion. The Group believes that it can act effectively to help alleviate social problems.

The Group has donated approximately HK\$1.83 million during the 2022 Reporting Period to various charity organisations. The beneficiary institutions mainly included Po Leung Kuk, Hong Kong Repertory Theatre, Teen's Key, etc.

# Independent Auditors' Report



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電郵 Email: info@pccpa.hk

## TO THE MEMBERS OF HANVEY GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

### OPINION

We have audited the consolidated financial statements of Hanvey Group Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 59 to 133, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### BASIS FOR OPINION

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

### 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.

# Independent Auditors' Report

## Revenue recognition

Refer to Notes 3 and 6 to the consolidated financial statements.

Revenue is recognised when the Group satisfies a performance obligation by transferring the control of promised goods or services to a customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for that goods or services.

We focused on this area due to the significant volume of revenue transactions generated in different locations.

## How our audit addressed the key audit matter

Our procedures in relation to assess the recognition of revenue from manufacturing and trading business of watches included but not limited to:

- Understanding and evaluating the management's controls in respect of the Group's sales transactions from contract approval, recording of sales based on contract terms, through reconciliations with cash receipts and customer's records;
- Testing of revenue recorded covering different locations and customers, using sampling techniques, by examining the relevant customer orders, goods delivery notes and customer's receipt notes. In addition, we arranged confirmations to certain customers to confirm sales transactions with the Group; and
- Testing the recognition of material sales transactions close to the end of the reporting period to assess whether those sales transactions were recorded in appropriate accounting period in accordance with the Group's revenue recognition policy.

We found that the amount and timing of the revenue recorded to be supportable by available evidence.

## Allowance for expected credit losses ("ECL") of trade receivables

We identified the allowance for ECL of trade receivables as a key audit matter due to significant management judgement involved in the identification and measurement of the allowance for ECL.

As disclosed in note 20 to the consolidated financial statements, the Group has trade receivables of approximately HK\$22,284,000, net of an allowance for ECL of approximately HK\$1,212,000 as at 31 December 2022.

Management applied judgement in assessing the expected credit losses. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss rates are determined based on historical credit losses and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.

## How our audit addressed the key audit matter

Our procedures in relation to allowance for ECL of trade receivables included:

- Obtaining an understanding of and assessing the design and implementation of management's key internal controls relating to estimation of expected credit losses;
- Obtaining an understanding of the key parameters, inputs and assumptions of the expected credit loss model adopted by management, including historical default data and estimated loss rates;
- Assessing the reasonableness of management's loss allowance estimates by examining the information used by management, including historical settlement pattern, default data and past due status, any post-year-end payments received up to the date of completing our audit procedures, current market conditions and forward-looking information; and
- Re-performing the calculation of the loss allowance based on the Group's credit loss allowance policies.

We found that the management's impairment assessment were supportable by credible evidence.



# Independent Auditors' Report

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' 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 AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

## Independent Auditors' Report

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.



## Independent Auditors' Report

### **OTHER MATTER**

The consolidated financial statements of the Group for the year ended 31 December 2021 were audited by the previous auditor of the Group who expressed an unmodified opinion on those statements on 29 April 2022.

#### **Confucius International CPA Limited**

*Certified Public Accountants*

#### **Wong Kam Hing**

*Practising Certificate Number: P05697*

Hong Kong, 24 March 2023

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	Year ended 31 December	
		2022 HK\$'000	2021 HK\$'000
Revenue	6	272,555	204,495
Cost of sales		(216,337)	(147,652)
Gross profit		56,218	56,843
Other income and other loss, net	7	2,741	2,471
Selling and distribution expenses		(4,176)	(4,585)
Administrative expenses		(58,547)	(52,477)
Finance costs	8	(6,754)	(5,154)
<b>Loss before tax</b>	9	<b>(10,518)</b>	(2,902)
Income tax (expense) credit	12	(600)	110
<b>Loss for the year</b>		<b>(11,118)</b>	(2,792)
<b>Attributable to:</b>			
Owners of the Company		(10,646)	(2,549)
Non-controlling interests		(472)	(243)
		<b>(11,118)</b>	(2,792)
<b>Other comprehensive (expense) income</b>			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating of foreign operations		(6,426)	1,940
Other comprehensive (expense) income for the year, net of tax		(6,426)	1,940
<b>Total comprehensive expense for the year</b>		<b>(17,544)</b>	(852)
<b>Attributable to:</b>			
Owners of the Company		(17,072)	(609)
Non-controlling interests		(472)	(243)
		<b>(17,544)</b>	(852)
<b>Loss per share attributable to equity owners of the Company</b>			
Basic and diluted (HK cents)	14	(7.13)	(2.09)

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	As at 31 December	
		2022 HK\$'000	2021 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	15	62,191	67,984
Right-of-use assets	16	1,721	3,927
Investment properties	17	11,573	11,223
Financial assets at fair value through profit or loss	22	460	440
		<b>75,945</b>	83,574
<b>Current assets</b>			
Inventories	19	43,899	28,594
Trade receivables	20	22,284	21,304
Other receivables, deposits and prepayments	21	8,807	9,491
Financial assets at fair value through profit or loss	22	23,059	18,243
Pledged bank deposits	23	57,049	46,887
Cash and bank balances	23	14,616	13,046
		<b>169,714</b>	137,565
<b>Current liabilities</b>			
Bank overdrafts	27	2,559	3,298
Trade and bills payables	24	93,679	60,638
Other payables and accrued expenses	25	4,884	5,364
Contract liabilities	26	1,634	1,985
Borrowings	27	47,000	86,016
Tax payable		257	65
Lease liabilities	28	865	1,548
		<b>150,878</b>	158,914
<b>Net current assets (liabilities)</b>		<b>18,836</b>	(21,349)
<b>Total assets less current liabilities</b>		<b>94,781</b>	62,225

## Consolidated Statement of Financial Position

As at 31 December 2022

	Notes	As at 31 December	
		2022 HK\$'000	2021 HK\$'000
<b>Non-current liabilities</b>			
Borrowings	27	55,315	21,508
Lease liabilities	28	804	1,747
		56,119	23,255
<b>Net assets</b>		38,662	38,970
<b>Capital and reserves</b>			
Share capital	29	16,500	10,000
Reserves		22,877	29,213
Equity attributable to owners of the Company		39,377	39,213
Non-controlling interests		(715)	(243)
<b>Total equity</b>		38,662	38,970

The consolidated financial statements were approved and authorised for issue by the board of directors on 24 March 2023 and signed on its behalf by:

**CHEUK Sin Cheong Clement**  
*Executive Director*

**AU Corona Ching Mei**  
*Executive Director*

The accompanying notes form an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

	Share capital	Share premium	Exchange reserves (Note (a))	Other reserve (Note (b))	Accumulated losses	Subtotal	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2021	10,000	42,344	3,001	1,000	(16,523)	39,822	-	39,822
Loss for the year	-	-	-	-	(2,549)	(2,549)	(243)	(2,792)
Other comprehensive income for the year	-	-	1,940	-	-	1,940	-	1,940
Total comprehensive income (expense) for the year	-	-	1,940	-	(2,549)	(609)	(243)	(852)
At 31 December 2021 and 1 January 2022	<b>10,000</b>	<b>42,344</b>	<b>4,941</b>	<b>1,000</b>	<b>(19,072)</b>	<b>39,213</b>	<b>(243)</b>	<b>38,970</b>
Loss for the year	-	-	-	-	(10,646)	(10,646)	(472)	(11,118)
Other comprehensive expense for the year	-	-	(6,426)	-	-	(6,426)	-	(6,426)
Total comprehensive expense for the year	-	-	(6,426)	-	(10,646)	(17,072)	(472)	(17,544)
Issue of shares by right issue	5,000	6,000	-	-	-	11,000	-	11,000
Issue of shares by placement	1,500	6,000	-	-	-	7,500	-	7,500
Share issue expenses	-	(1,264)	-	-	-	(1,264)	-	(1,264)
<b>At 31 December 2022</b>	<b>16,500</b>	<b>53,080</b>	<b>(1,485)</b>	<b>1,000</b>	<b>(29,718)</b>	<b>39,377</b>	<b>(715)</b>	<b>38,662</b>

Notes:

- (a) The exchange reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations.
- (b) The other reserve is according to the reorganisation and pursuant to the Sale and Purchase Agreement of 3 Wells Watch Industries Limited dated 4 August 2017, Precise Time Global Limited acquired 1,000,000 ordinary shares of 3 Wells Watch Industries Limited (representing the entire issued share capital of 3 Wells Watch Industries Limited) from Million Easy Enterprises Limited, and in consideration thereof, Beyond Blossom Investments Limited allotted and issued one share, credited as fully paid, to the Company as directed by Million Easy Enterprises Limited.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	Year ended 31 December	
		2022 HK\$'000	2021 HK\$'000
<b>Operating activities</b>			
Loss before tax		(10,518)	(2,902)
Adjustments for:			
Interest income	7	(463)	(587)
Exchange (gain) loss, net	7	(1,781)	300
Finance costs	8	6,754	5,154
Net gain arising from change in fair value of investment properties	7	(350)	(475)
Net loss (gain) arising from change in fair value of financial assets at fair value through profit or loss ("FVTPL")	7	455	(77)
Net realised loss on disposal of financial assets at FVTPL	7	644	–
Write-down of inventories	9	–	620
Allowance for (reversal of) expected credit loss ("ECL") on trade receivables	9	1,106	(221)
Depreciation of right-of-use assets	16	1,410	1,757
Depreciation of property, plant and equipment	15	5,916	5,302
<b>Operating cash flows before movements in working capital</b>			
		3,173	8,871
Increase in inventories		(15,305)	(8,981)
Increase in trade receivables		(2,086)	(4,893)
Decrease (increase) in other receivables, deposits and prepayments		684	(1,813)
Increase in trade and bills payables		33,041	5,386
(Decrease) increase in contract liabilities		(351)	70
Decrease in other payables and accrued expenses		(480)	(626)
<b>Cash from (used in) operations</b>			
		18,676	(1,986)
Income tax (paid) refunded		(408)	581
<b>Net cash from (used in) operating activities</b>			
		18,268	(1,405)



# Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Notes	Year ended 31 December	
		2022 HK\$'000	2021 HK\$'000
<b>Investing activities</b>			
Purchase of property, plant and equipment		(2,505)	(2,798)
Purchase of financial assets at FVTPL		(11,314)	(1,267)
Proceeds from disposal of financial assets at FVTPL		5,710	1,575
Increase in deposit for life insurance		(331)	(317)
Increase in pledged bank deposits		(10,162)	(268)
Interest received		463	587
<b>Net cash used in investing activities</b>		<b>(18,139)</b>	(2,488)
<b>Financing activities</b>			
Repayment of lease liabilities		(1,670)	(1,872)
Leases interest paid		(137)	(196)
Borrowings interest paid		(6,569)	(4,910)
Overdraft interest paid		(48)	(48)
Proceeds from borrowings		188,101	186,073
Repayments of borrowings		(192,619)	(181,139)
Net proceeds from issue of shares		17,236	–
<b>Net cash from (used in) financing activities</b>		<b>4,294</b>	(2,092)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>4,423</b>	(5,985)
<b>Cash and cash equivalents at beginning of the year</b>		<b>9,748</b>	15,369
Effect of foreign exchange rate changes		(2,114)	364
Cash and cash equivalents at end of the year		12,057	9,748
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances	23	14,616	13,046
Bank overdrafts	27	(2,559)	(3,298)
Cash and cash equivalents as stated in the consolidated statement of cash flows	23	12,057	9,748

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 12 June 2017 as an exempted company with limited liability under the Companies Act, Cap.22 (Act 3 of 1961 as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Units 3, 5 and 6, 15th Floor, Tower One, Ever Gain Plaza, No. 88 Container Port Road, Kwai Chung, New Territories, Hong Kong. Its ultimate holding company and immediate holding company are Million Easy Enterprises Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company and its subsidiaries are principally engaged in design and development, manufacturing and distribution of watch products on original design manufacturing (“ODM”) basis for watch manufacturers, brand owners and watch importers across the global.

The shares of the Company have been listed on the GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 12 July 2018 (the “**Listing Date**”).

The consolidated financial statements are presented in (“**HK\$**” or “**HKD**”) which is also the functional currency of the Company and its subsidiaries. All values are rounded to the nearest thousand (HK\$’000), except where otherwise indicated.

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

### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

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

### New and amendments to HKFRSs in issue but not yet effective

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective date to be determined.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2024.

The directors of the Company anticipate that the application of all above new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### Basis of Preparation

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

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

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

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group which qualifies as business combination, except for those acquisitions which qualify as a common control combination and are therefore accounted for using the merger accounting.

Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange and, all acquisition-related costs are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of profit or loss and other comprehensive income.

### **Basis of consolidation**

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Subsidiaries (Continued)

#### **Basis of consolidation** (Continued)

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

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

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

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

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

### Revenue and other income

#### **Revenue from contracts with customers**

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue and other income (Continued)

#### **Revenue from contracts with customers** (Continued)

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

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

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

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

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

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Further details of the Group's revenue and other income recognition policies are as follows:

#### **Revenue from sales of watches**

Revenue from sales of watches are recognised when control of goods has transferred, being the time when the products are delivered to customers and title is passed.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

The items of property, plant and equipment, after taking into account the residual values, are depreciated on a straight-line basis at the following rates per annum.

Leasehold improvements	20% or over the lease terms, if shorter
Plant and machinery	10–20%
Furniture, fixtures and equipment	20%
Motor vehicle	20%
Leasehold buildings	over the lease term

### Inventories

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

### Impairment losses on non-financial assets

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment losses on non-financial assets (Continued)

The recoverable amount of non-financial assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

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

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When allocating an impairment loss to individual assets within a CGU, the carrying amount of an individual asset should not be reduced below the highest of its fair value less cost of disposal (if measurable), its value in use (if determinable), and zero. If this results in an amount being allocated to an asset which is less than its pro rata share of the impairment loss, the excess is allocated to the remaining assets within the CGU on a pro rata basis.

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

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investment properties (Continued)

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

### Financial instruments

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

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

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

### Financial assets

#### Classification and measurement of financial assets

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

#### Classification and measurement of financial assets (Continued)

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

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

All other financial assets are subsequently measured at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

#### (i) Amortised cost and interest income

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

##### Classification and measurement of financial assets (Continued)

###### (ii) Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other income and other loss, net" line item.

#### Impairment of financial assets

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

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

The Group always recognises lifetime ECL for trade receivables without significant financing component.

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

###### (i) Significant increase in credit risk

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

#### Impairment of financial assets (Continued)

##### (i) Significant increase in credit risk (Continued)

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

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

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

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

##### (ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

#### Impairment of financial assets (Continued)

##### (iii) Credit-impaired financial assets

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

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

##### (iv) Write-off policy

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

##### (v) Measurement and recognition of ECL

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Financial assets (Continued)

#### Impairment of financial assets (Continued)

#### (v) Measurement and recognition of ECL (Continued)

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivable) and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

#### Derecognition of financial assets

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### **Financial assets** (Continued)

##### **Derecognition of financial assets** (Continued)

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

#### **Financial liabilities and equity instruments**

##### **Classification as financial liabilities or equity**

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

#### **Equity instruments**

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

#### **Financial liabilities**

Financial liabilities (including trade and bills payables, other payables and accrued expenses, lease liabilities, bank overdrafts and borrowings) are subsequently measured at amortised cost, using the effective interest method.

#### **Derecognition of financial liabilities**

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

### Leases

#### **Definition of a lease**

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### *The Group as a lessee*

##### *Allocation of consideration to components of a contract*

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

##### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to leases of a property that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

##### *Right-of-use assets*

The cost of right-of-use asset includes:

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

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

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

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

##### *Refundable rental deposits*

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### *The Group as a lessee* (Continued)

##### *Lease liabilities*

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease.

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### *The Group as a lessee* (Continued)

##### *Lease modifications*

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

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

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

#### *The Group as a lessor*

##### *Classification and measurement of leases*

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

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

Rental income which are derived from the investment properties are presented as "other income and other loss, net".

##### *Allocation of consideration to components of a contract*

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### *The Group as a lessor* (Continued)

##### *Lease modification*

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

### Equity-Settled Share-Based Payment Transactions

#### *Share options granted to directors, employees and others providing similar services rendered by employees*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When the share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to accumulated losses.

### Taxation

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation (Continued)

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

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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

Current and deferred tax are recognised in profit or loss.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign Currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserves (attributed to non-controlling interests as appropriate).

### Borrowing Costs

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

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

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

### Government Grants

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Retirement Benefits Costs

Payments to the Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes, which are defined contribution schemes, are recognised as an expense when employees have rendered services entitling them to the contributions.

In accordance with the rules and regulations in the People's Republic of China (the "PRC"), the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to certain ceiling. The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other postretirement benefits of its employees. The assets of these plans are held separately from the subsidiary in an independent fund managed by the PRC government.

### Short-term and Other Long-term Employee Benefits

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

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

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Provisions

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

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

### Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable. Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### Segment Reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the consolidated financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Related parties

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

- (a) A person or a close member of that person's family is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiaries is related to the others);
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member);
  - (iii) both entities are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employees are also 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); or
  - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## **3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES** (Continued)

### **Related parties** (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the Group including:

- (i) the person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources, or obligations between the Group and a related party, regardless of whether a price is charged.

## **4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 3 to the consolidated financial statements, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Allowance of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit-impaired nature are assessed for ECL individually. The allowance of ECL is sensitive to changes in estimates.

### Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash-generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

### Fair values of investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. The determination of the fair value involves certain assumptions of market conditions which are set out in Note 17.

In relying on the valuation report, the directors of the Company have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. Changes to these assumptions, including the potential risk of the market violation, would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2022, the carrying amount of the Group's investment properties is approximately HK\$11,573,000 (2021: approximately HK\$11,223,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 5. SEGMENT INFORMATION

Information reported to the chief operating decision makers (“**CODMs**”) for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group currently operates in the manufacturing and trading business of watches. A single management team reports to the CODMs who comprehensively manages the entire business. The segmentations are based on the information about the operation of the Group that management uses to make decisions and regularly reviewed by the CODMs of the purpose of allocating resources to segments and assessing their performance. For the years ended 31 December 2022 and 2021, the Group has only one operating segment in Original Design Manufacturer (“**ODM**”). Accordingly, no segment result, assets and liabilities are presented.

### Geographical information

The Group’s revenue is mainly derived from customers located in the Indonesia, Hong Kong, Brazil, India, Kingdom of Saudi Arabia, Australia, United Arab Emirates (“**UAE**”) and Turkey. The Group’s revenue by the geographical location of the customers, determined based on the location to which the Group bills the customers, is detailed below:

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Indonesia	156,686	131,232
Hong Kong	34,798	13,042
Brazil	18,195	18,794
India	34,519	14,159
Kingdom of Saudi Arabia	1,726	3,982
Australia	7,121	6,015
UAE	2,058	1,207
Turkey	4,490	2,962
Others (Note)	12,962	13,102
	<b>272,555</b>	204,495

Note: Other geographical locations are mainly located in Germany, Thailand, United Kingdom, Switzerland, Bangladesh and the PRC.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 5. SEGMENT INFORMATION (Continued)

### Geographical information (Continued)

The Group's business activities are conducted predominantly in Hong Kong and the PRC. Information about the Group's non-current assets\* by the geographical location of the assets is detailed below:

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Hong Kong	38,148	39,392
PRC	37,337	43,742
	75,485	83,134

\* Non-current assets exclude financial asset at FVTPL.

### Revenue from major customers

Revenue from customers of the corresponding years over 10% of the total revenue of the Group are as follows:

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Customer A	156,686	131,232
Customer B	34,519	14,159*

\* Less than 10% of revenue in 2021.

## 6. REVENUE

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Finished watches	220,579	129,652
SKD kits	46,420	34,693
Watch parts	5,556	40,150
Revenue recognised at a point in time	272,555	204,495

All revenue contracts are for a period of one year or less, as permitted by practical expedient under HKFRS 15 *Revenue from Contracts with Customers*, the transaction price allocated to these unsatisfied contracts is not disclosed.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 7. OTHER INCOME AND OTHER LOSS, NET

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Interest income	463	587
Rental income	360	335
Exchange gain (loss), net	1,781	(300)
Government grants ( <i>Note</i> )	868	1,246
Sundry income	18	51
Net realised loss on disposals of financial assets at FVTPL	(644)	–
Net gain arising from change in fair value of investment properties	350	475
Net (loss) gain arising from change in fair value of financial assets at FVTPL	(455)	77
	<b>2,741</b>	<b>2,471</b>

*Note:* During the year, the Group recognised government grants of approximately HK\$483,000 in respect of COVID-19 related subsidies which is related to Employment Support Scheme provided by the Hong Kong government (2021: approximately HK\$750,000 in respect of development branding which is related to Enterprise Support Scheme provided by the Hong Kong government) and approximately HK\$385,000 (2021: approximately HK\$496,000) received from the PRC government in respect of COVID-19 related subsidies.

## 8. FINANCE COSTS

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Interest expenses on:		
Borrowings	6,569	4,910
Lease liabilities	137	196
Bank overdrafts	48	48
	<b>6,754</b>	<b>5,154</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 9. LOSS BEFORE TAX

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

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Directors' emoluments ( <i>Note 10</i> )	9,103	7,318
Staff costs (excluded directors' emoluments)	12,346	12,065
Bonus	1,674	1,271
Retirement benefit scheme contributions	1,658	1,493
Total staff costs	15,678	14,829
	24,781	22,147
Auditors' remuneration	570	860
Cost of inventories recognised as expenses	216,057	143,045
Depreciation of right-of-use assets ( <i>Note 16</i> )	1,410	1,757
Depreciation of property, plant and equipment ( <i>Note 15</i> )	5,916	5,302
Write-down of inventories ( <i>Note</i> )	–	620
Commission paid	912	727
Expenses relating to short-term leases	24	–
Allowance for (reversal of) ECL on trade receivables	1,106	(221)

*Note:* Write-down of inventories were included in cost of sales.

## 10. DIRECTORS' EMOLUMENTS

Pursuant to the GEM Listing Rules and Section 383 of the Hong Kong Companies Ordinance and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G), the aggregate amounts, the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries.

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Directors' fees	576	576
Salaries and other benefits	5,541	5,516
Discretionary bonus	2,950	1,190
Retirement benefit scheme contributions	36	36
	9,103	7,318

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 10. DIRECTORS' EMOLUMENTS (Continued)

	Year ended 31 December 2022				
	Directors' fee HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonus HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Executive directors:					
Mr. Cheuk Sin Cheong Clement ("Mr. Cheuk")	–	4,200	2,550	18	6,768
Ms. Au Corona Ching Mei M.H. ("Mrs. Cheuk")	–	1,341	400	18	1,759
Independent non-executive directors:					
Mr. Yu Sau Ning Homer M.H.	144	–	–	–	144
Mr. Zhao Zhipeng	144	–	–	–	144
Ms. Yee Wai Fong Wendy	144	–	–	–	144
Dr. Liu Ngai Wing	144	–	–	–	144
	<b>576</b>	<b>5,541</b>	<b>2,950</b>	<b>36</b>	<b>9,103</b>
	Year ended 31 December 2021				
	Directors' fee HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonus HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
Executive directors:					
Mr. Cheuk Sin Cheong Clement ("Mr. Cheuk")	–	4,200	1,090	18	5,308
Ms. Au Corona Ching Mei M.H. ("Mrs. Cheuk")	–	1,316	100	18	1,434
Independent non-executive directors:					
Mr. Yu Sau Ning Homer M.H.	144	–	–	–	144
Mr. Zhao Zhipeng	144	–	–	–	144
Ms. Yee Wai Fong Wendy	144	–	–	–	144
Dr. Liu Ngai Wing	144	–	–	–	144
	<b>576</b>	<b>5,516</b>	<b>1,190</b>	<b>36</b>	<b>7,318</b>

During the reporting period, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. Directors did not waive or agree to waive any emoluments during the reporting period.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 11. EMPLOYEES EMOLUMENTS AND SENIOR MANAGEMENT EMOLUMENTS

The five highest paid employees of the Group during the year ended 31 December 2022 included two (2021: two) directors and details of whose remuneration are set out in Note 10 above. During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. Details of the remuneration of the remaining three (2021: three) highest paid employees who are not directors are as follows:

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Salaries, allowance and benefit in kind	2,780	2,347
Bonuses	638	603
Retirement benefit scheme contributions	54	54
	<b>3,472</b>	3,004

The number of the highest paid employees who are not the directors of the Company whose emoluments fell within the following bands is as follows:

	Year ended 31 December	
	2022 Number of individuals	2021 Number of individuals
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–
	<b>3</b>	3

## 12. INCOME TAX (EXPENSE) CREDIT

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

Under the two-tiered profits tax rate regime in Hong Kong, one of the subsidiaries of the Company is subject to Hong Kong Profits Tax at the rate of 8.25% for the first HK\$2 million of estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million. Other subsidiaries of the Company are subjected to Hong Kong Profits Tax at the rate of 16.5% for the years ended 31 December 2022 and 2021.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 12. INCOME TAX (EXPENSE) CREDIT (Continued)

The subsidiaries of the Group established in the PRC are generally subject to PRC Enterprise Income Tax ("EIT") on its taxable income at an income tax rate of 25% for both years.

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Tax charge (credit) comprises:		
Current tax		
Hong Kong Profits Tax		
– Charge for the year	455	–
– Under (over)-provision in prior years	89	(115)
PRC Enterprise income tax		
– Charge for the year	56	–
	600	(115)
Deferred tax	–	5
	600	(110)

A reconciliation of the income tax expense (credit) applicable to loss before tax at the statutory rate for jurisdiction in which the Company's and the majority of its subsidiaries are domiciled to the tax charge (credit) at the effective tax rates is as follows:

	Year ended 31 December	
	2022 HK\$'000	2021 HK\$'000
Loss before tax	(10,518)	(2,902)
Tax at the applicable income tax rates	(1,735)	(479)
Tax effect of non-taxable income	(607)	(840)
Tax effect of non-deductible expenses	626	1,727
Under (over)-provision in prior years	89	(115)
Tax effect of tax loss not recognised	2,843	–
Utilisation of unused tax loss previously not recognised	(445)	(398)
Tax concession	(171)	–
Derecognition of deferred tax arising from tax losses previously recognised	–	(5)
Tax charge (credit) for the year	600	(110)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 13. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2022, nor has any dividend been proposed since the end of the reporting period (2021: Nil).

## 14. LOSS PER SHARE

Basic loss per share are calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	<b>2022</b>	2021
	<b>HK\$'000</b>	HK\$'000
<b>Loss</b>		
Loss attributable to owners of the Company	<b>(10,646)</b>	(2,549)
<b>Number of shares (thousands)</b>		
Weighted average number of ordinary shares for calculating basic and diluted loss per share	<b>149,307</b>	121,951

For the years ended 31 December 2022 and 2021, diluted loss per share is the same as the basic loss per share as the Company did not have any potential dilutive ordinary shares outstanding during the years ended 31 December 2022 and 2021.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Leasehold buildings HK\$'000	Total HK\$'000
<b>Cost</b>						
At 1 January 2021	23,885	8,762	5,975	3,687	64,659	106,968
Additions (Note)	1,652	53	1,093	–	–	2,798
Transfer from right-of-use assets	–	–	–	819	–	819
Exchange realignment	278	258	85	12	1,015	1,648
At 31 December 2021 and 1 January 2022	25,815	9,073	7,153	4,518	65,674	112,233
Additions (Note)	<b>2,094</b>	<b>88</b>	<b>323</b>	–	–	<b>2,505</b>
Written off	–	–	–	<b>(948)</b>	–	<b>(948)</b>
Transfer from right-of-use assets	–	–	–	<b>2,084</b>	–	<b>2,084</b>
Exchange realignment	<b>(777)</b>	<b>(678)</b>	<b>(240)</b>	<b>(32)</b>	<b>(2,649)</b>	<b>(4,376)</b>
At 31 December 2022	<b>27,132</b>	<b>8,483</b>	<b>7,236</b>	<b>5,622</b>	<b>63,025</b>	<b>111,498</b>
<b>Accumulated depreciation</b>						
At 1 January 2021	16,545	5,388	4,886	3,066	8,097	37,982
Charge for the year	1,232	769	574	239	2,488	5,302
Transfer from right-of-use assets	–	–	–	553	–	553
Exchange realignment	116	171	65	8	52	412
At 31 December 2021 and 1 January 2022	17,893	6,328	5,525	3,866	10,637	44,249
Charge for the year	<b>1,477</b>	<b>719</b>	<b>572</b>	<b>698</b>	<b>2,450</b>	<b>5,916</b>
Written off	–	–	–	<b>(948)</b>	–	<b>(948)</b>
Transfer from right-of-use assets	–	–	–	<b>1,378</b>	–	<b>1,378</b>
Exchange realignment	<b>(342)</b>	<b>(491)</b>	<b>(189)</b>	<b>(26)</b>	<b>(240)</b>	<b>(1,288)</b>
At 31 December 2022	<b>19,028</b>	<b>6,556</b>	<b>5,908</b>	<b>4,968</b>	<b>12,847</b>	<b>49,307</b>
<b>Carrying amount</b>						
<b>At 31 December 2022</b>	<b>8,104</b>	<b>1,927</b>	<b>1,328</b>	<b>654</b>	<b>50,178</b>	<b>62,191</b>
At 31 December 2021	7,922	2,745	1,628	652	55,037	67,984

Note: Amount includes right-of-use assets resulting from new leases entered, business combination, lease modification, reassessment/exercise of extension/termination options, payments for leasehold land, excluding those classified as investment properties.

All the Group's leasehold buildings are situated in PRC and Hong Kong.

The Group has pledged property, plant and equipment with a carrying amount of approximately HK\$49,850,000 and HK\$54,697,000 as at 31 December 2022 and 31 December 2021, respectively, to secure general banking facilities granted to the Group as disclosed in Note 32.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 16. RIGHT-OF-USE ASSETS

	Motor vehicles HK\$'000	Office equipment HK\$'000	Leasehold buildings HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2021	3,671	45	1,740	5,456
Additions (Note)	–	–	2,993	2,993
Transfer to property, plant and equipment	(819)	–	–	(819)
Exchange realignment	–	–	23	23
At 31 December 2021 and 1 January 2022	2,852	45	4,756	7,653
Written off	–	–	(1,740)	(1,740)
Transfer to property, plant and equipment	(2,084)	–	–	(2,084)
Exchange realignment	–	–	(121)	(121)
At 31 December 2022	<b>768</b>	<b>45</b>	<b>2,895</b>	<b>3,708</b>
<b>Accumulated depreciation</b>				
At 1 January 2021	1,118	5	1,394	2,517
Charge for the year	734	9	1,014	1,757
Transfer to property, plant and equipment	(553)	–	–	(553)
Exchange realignment	–	–	5	5
At 31 December 2021 and 1 January 2022	1,299	14	2,413	3,726
Charge for the year	<b>397</b>	<b>9</b>	<b>1,004</b>	<b>1,410</b>
Written off	–	–	(1,740)	(1,740)
Transfer to property, plant and equipment	(1,377)	–	–	(1,377)
Exchange realignment	–	–	(32)	(32)
At 31 December 2022	<b>319</b>	<b>23</b>	<b>1,645</b>	<b>1,987</b>
<b>Carrying amount</b>				
At 31 December 2022	<b>449</b>	<b>22</b>	<b>1,250</b>	<b>1,721</b>
At 31 December 2021	1,553	31	2,343	3,927

Note: Amount includes right-of-use assets resulting from new leases entered.

For both years, the Group leases various office equipment and motor vehicles for its operations. Lease contracts are entered into for fixed term of 3 to 5 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 17. INVESTMENT PROPERTIES

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
<b>Fair value</b>		
Balance at beginning of year	11,223	10,748
Net gain arising from change in fair value of investment properties	350	475
Balance at end of year	11,573	11,223

The Group leases out offices under operating leases with rentals payable monthly. The leases typically run for an initial period of 2 to 3 years (2021: 2 to 3 years), with unilateral rights to extend the lease beyond initial period held by lessees only.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

The fair value of the Group's investment properties as at 31 December 2022 and 2021 at approximately HK\$11,573,000 and approximately HK\$11,223,000, respectively has been arrived at on the basis of a valuation carried out on the respective dates by Sinoappraisal Advisory Limited and Assets Appraisal Limited respectively for Hong Kong properties, independent qualified professional valuer not connected to the Group who have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

At each of financial year end, the management of the Group will (i) verify all major inputs to the independent valuation report; (ii) assess property valuation movements when compared to prior year valuation report; and (iii) hold discussion with the independent valuer.

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

There has been no change to the valuation technique during the years ended 31 December 2022 and 2021.

In estimating the fair value of the investment properties, the highest and best use of the properties is their current use.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 17. INVESTMENT PROPERTIES (Continued)

The fair values of certain investment properties have been adjusted to exclude prepaid or accrued operating lease income to avoid double counting.

The fair value was determined based on direct comparison method assuming sale of the property interest in its existing state and making references to comparable market observable transactions of similar properties in similar locations and conditions as available in the relevant market. Those comparable properties are analysed and carefully weighed against all respective advantages and disadvantages of each property in order to arrive at a fair comparison of value.

The Group's investment properties with an aggregate carrying amount of approximately HK\$11,573,000 and approximately HK\$11,223,000 as at 31 December 2022 and 31 December 2021, were pledged to secure general banking facilities granted to the Group as disclosed in Note 27.

### Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement using significant unobservable inputs (Level 3)	
	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Recurring fair value measurement for:		
– Commercial properties located in Hong Kong	11,573	11,223

The fair values of the Group's investment properties as at 31 December 2022 and 2021 were estimated by using significant unobservable inputs and the fair value measurement was categorised under Level 3.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 17. INVESTMENT PROPERTIES (Continued)

### Fair value hierarchy (Continued)

For investment properties categories into Level 3 of the fair value hierarchy, the following information is relevant:

Class of property	Fair value hierarchy	Valuation technique	Significant unobservable input(s)	Sensitivity
Properties located in Hong Kong	Level 3	Direct comparison method	Compare properties of similar size, character and location are analysed and carefully weighted against all the respective advantages of each property in order to arrive at a fair comparison of capital values. Market unit value was HK\$6,770 per square metre (2021: HK\$6,560 per square metre), taking into account the differences in location, and individual factor, such as frontage, location and size, between the comparables and the property.	An increase in the market price would result in an increase in fair value, and vice versa.

## 18. DEFERRED TAX ASSETS

	Tax losses HK\$'000
At 1 January 2021	5
Charge for the year (Note 12)	(5)
At 31 December 2021, 1 January 2022 and 31 December 2022	–

As at 31 December 2022, the Group had unused tax losses of approximately HK\$10,479,000 (2021: approximately HK\$12,488,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of the future profit streams. The unused tax losses of HK\$nil (2021: HK\$4,117,000) was arose from the PRC subsidiaries, which may be carried forward by 5 years.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 19. INVENTORIES

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Raw material	9,053	11,188
Work in progress	25,572	15,527
Finished goods	9,274	1,879
	<b>43,899</b>	28,594

## 20. TRADE RECEIVABLES

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Trade receivables	23,496	21,410
Less: allowance for ECL	(1,212)	(106)
	<b>22,284</b>	21,304

The ageing analysis (based on invoice date) of the Group's trade receivables (net of allowance for ECL) as at the end of each of reporting period is as follows:

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
0 to 30 days	17,845	15,478
31 to 60 days	895	4,360
61 to 90 days	269	647
Over 90 days	3,275	819
	<b>22,284</b>	21,304

As at 31 December 2022, an amount of HK\$5,929,000 (2021: HK\$3,999,000) included in trade receivables were transferred to banks by discounting on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise trade receivables' full carrying amounts at the end of the reporting period and recognise the cash received on the transfer as borrowings. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 20. TRADE RECEIVABLES (Continued)

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
HKD	12,007	7,585
USD	8,292	13,025
RMB	1,985	694
	<b>22,284</b>	21,304

The Group has policy of allowing its trade customers with credit period normally ranging from 30 to 90 days or in accordance with agreed terms of the contracts with customers. However, for certain customers with long established relationship and good repayment records, a longer credit period may be granted to more than 90 days.

The Group has a policy for allowance for ECL which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement including the creditworthiness and the past collection history of each customer as well as the forward-looking information.

Movement in the allowance for ECL on trade receivables is as follow:

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Balance at beginning of the year	106	2,113
Write off	–	(1,786)
Allowance for (reversal of) ECL	1,106	(221)
Balance at end of the year	<b>1,212</b>	106

Details of impairment assessment of trade receivables are set out in Note 38.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Other receivables	590	409
Deposits	67	189
Prepayments ( <i>Note</i> )	8,150	8,893
Balance at end of year	8,807	9,491

*Note:* It comprises of approximately HK\$4,034,000 (2021: HK\$6,897,000) as at 31 December 2022 in respect of prepayment to suppliers for purchase raw materials.

## 22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Non-current asset		
Unlisted club debentures	460	440
Current assets		
Held-for-trading securities	4,651	146
Key management personnel life insurance policies ( <i>Note</i> )	18,408	18,097
	23,059	18,243

*Note:* On 19 September 2013, a subsidiary of the Company has entered into key management personnel life insurance policies (the "Policies") to insure directors of the Company, Mr. Cheuk and Mrs. Cheuk. Under the Policies, the beneficiary and policy holder is a subsidiary of the Company and the total insured sum is USD5,000,000 (equivalent to approximately HK\$38,750,000). The Group is required to pay an upfront deposit of USD1,936,757 (equivalent to approximately HK\$15,010,000). The Group can terminate the Policies at any time and receive cash back based on the cash value of the Policies at the date of withdrawal, which is determined by the upfront payments plus accumulated interest earned and minus the accumulated insurance charge and policy expense charge. The Group receives an interest at interest rates guaranteed by the insurer. The fair value is based on redemption value quoted by the insurance company.

The entire amount of the rights under the Policies is denominated in United States Dollar.

The Group has pledged the Policies as at 31 December 2022 and 31 December 2021 to secure general banking facilities granted to the Group as disclosed in Note 32.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 23. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position as follows:

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Cash and bank balances	14,616	13,046
Bank overdrafts (Note 27)	(2,559)	(3,298)
	12,057	9,748
Pledged bank deposits	57,049	46,887
	69,106	56,635

Cash and bank balances comprise cash held by the Group and short-term bank deposits. Bank balances carried interest at prevailing market rate ranging from 0.01% to 0.88% and 0.01% to 1.2% per annum as at 31 December 2022 and 2021.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The Group has Renminbi (“RMB”), HKD and United States Dollar (“USD”) denominated cash and bank balances, which expose the Group to foreign currency risk. RMB is not freely convertible into other currencies. The carrying amounts of the Group’s RMB and USD denominated monetary assets at the end of the reporting period are as follows:

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
RMB	778	402
USD	2,489	499

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 23. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS (Continued)

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. As at 31 December 2022 and 31 December 2021, bank deposits of approximately HK\$57,049,000 and HK\$46,887,000 respectively were pledged to secure banking facility and were therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The balances as at 31 December 2022 carried interest at the prevailing market interest rate ranging from 0.05% to 3.60% (2021: 1%) per annum and it was denominated in HKD.

### 24. TRADE AND BILLS PAYABLES

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Trade payables	39,258	26,624
Bills payables	54,421	34,014
	<b>93,679</b>	60,638

The credit period on trade payables is generally 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame.

The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
0 to 30 days	6,482	6,181
31 to 60 days	10,561	10,497
61 to 90 days	9,351	7,753
91 to 120 days	11,662	1,742
Over 120 days	1,202	451
	<b>39,258</b>	26,624

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 24. TRADE AND BILLS PAYABLES (Continued)

Bills payables are all matured within 30 to 120 days. The following is an ageing analysis of bills payables presented based on the date of bills at the end of each reporting period:

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
0 to 30 days	7,627	12,483
31 to 60 days	23,051	6,702
61 to 90 days	12,812	12,333
91 to 120 days	10,931	2,496
	<b>54,421</b>	34,014

## 25. OTHER PAYABLES AND ACCRUED EXPENSES

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Salary and bonus payables	3,086	2,916
Other payables	653	1,590
Accrued expenses	1,145	858
	<b>4,884</b>	5,364

## 26. CONTRACT LIABILITIES

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Billings in advance of performance	1,634	1,985

As at 1 January 2022, contract liabilities amounted to HK\$1,985,000. During the year ended 31 December 2022, revenue recognised from performance obligation during current year that was included in the contract liabilities balance at the beginning of the year was approximately HK\$1,026,000 (2021: HK\$1,094,000)

Generally, the Group receives a lump sum amount of product fee in advance for a specified range of time from customers when they sign the contract. This lump sum amount received is recognised as a contract liabilities initially and will be recognised as revenue at the point in time when performances obligation are satisfied.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 27. BORROWINGS/BANK OVERDRAFTS

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Current – secured		
Bank overdrafts ( <i>Note (b) and (c)</i> )	2,559	3,298
Bank loans ( <i>Note (b), (c), (d) and (e)</i> )	47,000	86,016
	<b>49,559</b>	89,314
Non-current – secured		
Bank loans ( <i>Note (a) and (e)</i> )	55,315	21,508
Total borrowings	<b>104,874</b>	110,822

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Fixed-rate borrowings	8,484	7,152
Variable-rate borrowings	93,831	100,372
Bank overdrafts	2,559	3,298
	<b>104,874</b>	110,822
Less: amount classified as current liabilities secured borrowings due within one year or contain a repayment on demand clause	<b>(49,559)</b>	(89,314)
	<b>55,315</b>	21,508

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 27. BORROWINGS/BANK OVERDRAFTS (Continued)

The carrying amount of the variable-rate borrowings are repayable as follow:

	2022 HK\$'000	2021 HK\$'000
Variable-rate:		
Within one year	38,516	78,864
Over one year but within two years	15,634	15,765
Over two years but within five years	39,681	5,743
	<b>93,831</b>	100,372

Notes:

- (a) The term loans ("Facility I") were HK\$24,000,000 (2021: HK\$14,000,000) as at 31 December 2022. As at 31 December 2022, Facility I was corporate guaranteed by Hanvey Group Holdings Limited and pledged bank deposits with carrying amount of approximately HK\$24,224,000 (2021: approximately HK\$14,068,000). Facility I bear interest ranged from 2.50% to 6.00% (2021: 2.30% to 2.55%) per annum for the year ended 31 December 2022.
- (b) The term loan, overdraft and factoring facility ("Facility II") were approximately HK\$8,500,000 (2021: approximately HK\$8,420,000) as at 31 December 2022. As at 31 December 2022, Facility II was secured by the Policies, corporate guaranteed provided by Hanvey Group Holdings Limited. Facility II bear interest ranging from 2.75% to 3.16% (2021: 2.75% to 3.00%) per annum for the year ended 31 December 2022.
- (c) The term loan, revolving loan, overdraft, property mortgage and factoring facility ("Facility III") were approximately HK\$52,567,000 (2021: approximately HK\$64,074,000) as at 31 December 2022. As at 31 December 2022, Facility III was guaranteed by Mr. Cheuk and Mrs. Cheuk, secured by the property, plant and equipment with carrying amount of approximately HK\$9,139,000 (2021: approximately HK\$9,511,000), investment property with carrying amount of approximately HK\$11,573,000 (2021: approximately HK\$11,223,000) and bank deposits of approximately HK\$32,825,000 (2021: approximately HK\$32,819,000). Facility III bear interest ranging from 1.31% to 6.13% (2021: 1.26% to 5.97%) per annum for the year ended 31 December 2022.
- (d) The term loan and property mortgage ("Facility IV") were approximately HK\$12,858,000 (2021: approximately HK\$15,054,000) as at 31 December 2022. As at 31 December 2022, Facility IV was guaranteed by Hanvey Group Holdings Limited and secured by the property, plant and equipment with carrying amount of approximately HK\$11,856,000 (2021: approximately HK\$12,293,000) Facility IV bear interest ranged from 2.75% to 3.50% (2021: 1.96% to 3.28%) per annum for the year ended 31 December 2022.
- (e) The term loan and property mortgage ("Facility V") was approximately HK\$6,949,000 (2021: approximately HK\$9,274,000) as at 31 December 2022. As at 31 December 2022, Facility V was guaranteed by Mr. Cheuk and Mrs. Cheuk and secured by the property, plant and equipment with carrying amount of approximately HK\$28,856,000 (2021: approximately HK\$32,893,000). Facility V bear interest with 4.45% (2021: 4.8%) per annum for the year ended 31 December 2022.

Borrowings of approximately HK\$6,949,000 (2021: approximately HK\$9,273,000) were denominated in RMB as at 31 December 2022.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 28. LEASE LIABILITIES

The Group leased its motor vehicles, office equipment and leasehold buildings under lease liabilities with lease term of three to five years. The weighted average incremental borrowing rates to underlying lease liabilities are at 5.68% per annum and 5.27% per annum as at 31 December 2022 and 2021 respectively.

	Minimum lease payments As at 31 December		Present value of minimum lease payments As at 31 December	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Lease liabilities payable:				
Within one year	941	1,689	865	1,548
Within a period of more than one year but not more than two years	494	970	453	889
Within a period of more than two years but not more than five years	366	917	351	858
	<b>1,801</b>	3,576	<b>1,669</b>	3,295
Less: future finance charge	(132)	(281)	–	–
Present value of lease obligation	<b>1,669</b>	3,295	<b>1,669</b>	3,295
Less: Amount due for settlement within twelve months (shown under current liabilities)			(865)	(1,548)
Amount due for settlement after twelve months (shown under non-current liabilities)			<b>804</b>	1,747

As at 31 December 2022, the Group's lease liabilities are secured by the Group's motor vehicles with a carrying amount of approximately HK\$320,000 (2021: approximately HK\$866,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 29. SHARE CAPITAL

Movements of the share capital of the Company are as follows:

	Number of shares '000	Nominal value HK\$'000
<b>Authorised</b>		
At 1 January 2021, ordinary shares of HK\$0.01 each	10,000,000	100,000
Effect of share consolidation (Note a)	(9,000,000)	–
At 31 December 2021, 1 January 2022 and 31 December 2022, ordinary shares of HK\$0.1 each	<b>1,000,000</b>	<b>100,000</b>
<b>Issued and fully paid</b>		
At 1 January 2021, ordinary shares of HK\$0.01 each	1,000,000	10,000
Effect of share consolidation (Note a)	(900,000)	–
At 31 December 2021 and 1 January 2022, ordinary shares of HK\$0.1 each	<b>100,000</b>	<b>10,000</b>
Issue of shares by right issue (Note b)	<b>50,000</b>	<b>5,000</b>
Issue of shares by placement (Note c)	<b>15,000</b>	<b>1,500</b>
At 31 December 2022, ordinary shares of HK\$0.1 each	<b>165,000</b>	<b>16,500</b>

Notes:

- (a) On 19 November 2021, the share consolidation on the basis every ten issued and unissued existing shares be consolidated into one consolidated share of HK\$0.1 each.
- (b) On 7 March 2022, 50,000,000 ordinary shares were issued by the Company under the right issue on the basis of one rights share for every two shares at the subscription price of HK\$0.22 per rights share, giving gross proceeds of HK\$11,000,000.
- (c) On 29 July 2022, 15,000,000 ordinary shares were issued by the Company pursuant to a placing agreement dated 13 July 2022 at a placing price of HK\$0.5 per share, giving gross proceeds of HK\$7,500,000.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

### 30. RESERVES OF THE COMPANY

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2021	42,344	(43,904)	(1,560)
Loss and total comprehensive expense for the year	–	(9,725)	(9,725)
At 31 December 2021 and 1 January 2022	42,344	(53,629)	(11,285)
Loss and total comprehensive expense for the year	–	(13,306)	(13,306)
Issue of shares by right issue	6,000	–	6,000
Issue of shares by placement	6,000	–	6,000
Share issue expenses	(1,264)	–	(1,264)
At 31 December 2022	<b>53,080</b>	<b>(66,935)</b>	<b>(13,855)</b>

At 31 December 2022 and 31 December 2021, the Company had no reserves available for distribution in accordance with the Companies Act of Cayman Islands.

### 31. OPERATING LEASE COMMITMENTS

#### The Group as lessor

Investment properties were leased for a term of 2 to 3 years. At the end of each reporting period, the Group had contracted with two tenants for the following future minimum lease payments:

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Within one year	255	360
In the second year	80	150
	<b>335</b>	510

The Group leases investment properties under non-cancellable operating leases. The leases run for an initial period of 2 to 3 years, with options to renew the lease terms upon expiry when all terms are re-negotiated. None of these leases includes any contingent rentals.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 32. PLEDGE OF ASSETS

At the end of each reporting period, the following assets were pledged to bank to secure the Group's banking facilities:

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
Property, plant and equipment (Note 15)	49,850	54,697
Financial assets at fair value through profit or loss (Note 22)	18,408	18,097
Investment properties (Note 17)	11,573	11,223
Pledged bank deposits (Note 23)	57,049	46,887
	<b>136,880</b>	130,904

## 33. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution matched by employees but subject to a maximum amount of HK\$1,500 per month for each employee to the scheme.

Employees of the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions. There were no forfeited contributions utilised to offset employers' contributions for the year. At the end of the financial period, there was no forfeited contribution available to reduce the contributions payable in the future years.

## 34. SHARE OPTION SCHEME

The Company has a share option scheme (the "Share Option Scheme") which was approved and adopted by the shareholders of the Company (the "Shareholder(s)") by way of written resolutions passed on 20 June 2018. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date it was adopted. The purpose of the Share Option Scheme is to provide incentives or rewards to participants for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group and any entity in which our Group holds any equity interest ("Invested Entity").

Eligible participants of the Share Option Scheme include (a) any employee (whether full time or part time, including any executive director) of the Company, any of its subsidiaries and any Invested Entity; (b) any non-executive director (including independent non-executive directors) of our Company, any of its subsidiaries or any Invested Entity; (c) any supplier of goods or services to any member of our Group or any Invested Entity; (d) any customer of our Group or any Invested Entity; (e) any person or entity that provides research, development or other technological support to our Group or any Invested Entity; (f) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity; (g) any adviser (professional or otherwise) or consultant to any area of business or business development of our Group or any Invested Entity; and (h) any other group or classes of participants who have contributed or may contribute, by way of joint venture, business alliance, other business arrangement or otherwise, to the development and growth of our Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 34. SHARE OPTION SCHEME (Continued)

Ordinary shares of the Company (“**Share(s)**”) may be allotted and issued upon the exercise of the options granted under the Share Option Scheme. The total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the Listing Date, which was 100,000,000 Shares, representing approximately 10% of Shares in issue as at the date of this annual report. The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company (or the subsidiaries) from time to time.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised, cancelled or outstanding options) to each participant in any 12-month period shall not exceed 1% of Share in issue for the time being. Any further grant of options in excess of such limit in any 12-month period up to and including the date of such further grant shall be subject to Shareholders’ approval in general meeting of the Company with such participant and his/her close associates (or his/her associates if such Participant is a connected person) abstaining from voting. An offer of the grant of an option under the Share Option Scheme may be accepted within 21 days from the date of grant together with a remittance of HK\$1.00 by way of consideration for the grant thereof. An option may be exercised during such period as the Board may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of grant. Unless the Directors otherwise determine and state in the offer to a grantee, a grantee is not required to hold an option for any minimum period nor achieve any performance targets before any options granted under the Share Option Scheme can be exercised. The subscription price for the Shares on the exercise of the option shall be determined at the discretion of the Board which shall not be less than the higher of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of the grant of the option, which must be a trading day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet for the five trading days immediately preceding the date of the grant of the option; and (iii) the nominal value of the Share.

No share option has been granted, exercised, cancelled or lapsed by the Company pursuant to the Share Option Scheme during the years ended 31 December 2022 and 2021 and up to the date of this annual report.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 35. MAJOR NON-CASH TRANSACTIONS

- (a) The Group entered into the following major non-cash transactions which are not reflected in the consolidated statement of cash flows:

During the year ended 31 December 2022, the Group had no non-cash transaction.

During the year ended 31 December 2021, the Group had non-cash additions to right-of-use assets and lease liabilities of approximately HK\$2,993,000.

### (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities HK\$'000	Borrowings HK\$'000	Total HK\$'000
<b>At 1 January 2021</b>	(2,174)	(102,612)	(104,786)
Financing cash flows	2,068	(24)	2,044
Finance costs	(196)	(4,910)	(5,106)
Exchange realignment	–	22	22
New lease entered	(2,993)	–	(2,993)
<b>At 31 December 2021 and 1 January 2022</b>	<b>(3,295)</b>	<b>(107,524)</b>	<b>(110,819)</b>
Financing cash flows	<b>1,670</b>	<b>11,087</b>	<b>12,757</b>
Finance costs	<b>(137)</b>	<b>(6,569)</b>	<b>(6,706)</b>
Exchange realignment	<b>93</b>	<b>691</b>	<b>784</b>
<b>At 31 December 2022</b>	<b>(1,669)</b>	<b>(102,315)</b>	<b>(103,984)</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 36. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balance disclosed elsewhere in the consolidated financial statements, the Group entered into related parties transactions:

Name of related parties	Notes	Nature of transaction	Year ended 31 December	
			2022 HK\$'000	2021 HK\$'000
<b>Recurring:</b>				
Mr. Cheuk	(a)	Rental expense	720	720
Smart Hill	(b)	Rental income	–	65
	(b)	Sales of SKD kits	184	603

Notes:

- (a) Mr. Cheuk is an executive director of the Company.
- (b) Smart Hill Enterprises Limited (“**Smart Hill**”) is a connected person which is wholly-owned by the sister of Mrs. Cheuk.

### Compensation of key management personnel

The directors of the Company are identified as key management members of the Group and the compensation of directors and key management are set out in Notes 10 and 11.

### Balances with connected person

Smart Hill is a connected person in which the transaction with Smart Hill falls under the definition of “continuing connected transaction” in Chapter 20 of the GEM Listing Rules with a detailed disclosure of the relationship above.

## 37. 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 shareholders through the optimisation of the debt and equity balance. The Group’s overall strategy remains unchanged throughout the years ended 31 December 2022 and 2021.

The capital structure of the Group consists of net debt, which includes the bills payables, bank overdraft, borrowings and lease liabilities disclosed in Notes 24, 27 and 28, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 37. CAPITAL MANAGEMENT (Continued)

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure new share issues as well as the issue of new debt or the redemption of existing debt.

The following is the gearing ratio at the end of each reporting period:

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
Total borrowings (Note (a))	<b>160,964</b>	148,131
Less: cash and cash equivalents (Note (b))	<b>(71,665)</b>	(59,933)
Net debts	<b>89,299</b>	88,198
Total equity (Note (c))	<b>38,662</b>	38,970
Gearing ratio	<b>231%</b>	226%

Notes:

- (a) Total borrowings represent bills payables, bank overdrafts, borrowings and lease liabilities.
- (b) Cash and cash equivalents include pledge bank deposits and cash and bank balances.
- (c) Total equity includes share capital and reserves at the end of each reporting period.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	As at 31 December	
	2022 HK\$'000	2021 HK\$'000
<b>Financial assets</b>		
Financial assets at FVTPL	23,519	18,683
Financial assets measured at amortised cost:		
– Trade receivables	22,284	21,304
– Other receivables and deposits	657	598
– Pledged bank deposits	57,049	46,887
– Cash and bank balances	14,616	13,046
	<b>118,125</b>	100,518
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost:		
– Bank overdrafts	2,559	3,298
– Trade and bills payables	93,679	60,638
– Other payables and accrued expenses	4,884	5,364
– Borrowings	102,315	107,524
– Lease liabilities	1,669	3,295
	<b>205,106</b>	180,119

### Financial risk management objectives and policies

The Group's major financial instruments and details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. FINANCIAL INSTRUMENTS (Continued)

### Market risk

#### *Interest rate risk*

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

The directors of the Company consider the Group's exposures of the bank balances are not significant as interest bearing bank balances are within short maturity period and thus they are not included in sensitivity analysis.

The Group currently does not have any interest rate hedging policy. However, management closely monitors its exposure to future cash flow interest rate risk as a result of changes in market interest rates will consider hedging changes in market interest rates should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

#### *Sensitivity analysis*

As at 31 December 2022 and 2021, if the interest rate on all variable-rate borrowings had been 100 basis points higher/lower with all other variables held constant, the Group's loss before tax for the year would have been increased/decreased by approximately HK\$938,000 and approximately HK\$1,004,000 respectively.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of each of the period and had been applied to the exposure to interest rate risk for the borrowings in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. FINANCIAL INSTRUMENTS (Continued)

### Market risk (Continued)

#### Currency risk

The carrying amounts of the Group's monetary assets and liabilities (including cash and bank balances, trade receivables, other receivables, deposits and prepayments, trade and bills payables, other payables and accrued expenses and lease liabilities) denominated in currencies other than functional currency of the respective group entity at the end of each reporting period are as follows:

	Assets		Liabilities	
	As at 31 December		As at 31 December	
	2022	2021	2022	2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RMB	3,543	1,659	4,861	2,852
USD	10,762	13,524	22,803	12,936

#### Sensitivity analysis

The Group's currency risk is mainly concentrated on the fluctuation of US\$ and RMB. Since HK\$ is pegged to US\$, the Group does not expect any significant movement in US\$/HK\$ exchange rate.

The following table details the Group's sensitivities to a 10% increase and decrease in the functional currency of the group entities against relevant foreign currency. 10% is the sensitivity rate which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes only outstanding RMB denominated monetary items and adjusts their translation at the end of the reporting period for a 10% change. A positive number indicates a decrease in post-tax loss for the year HK\$ strengthens 10% against RMB. For a 10% weakening of HK\$ against RMB, there would be an equal but opposite impact on the post-tax loss for the year.

	As at 31 December	
	2022	2021
	HK\$'000	HK\$'000
RMB	110	99

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the exposures at the end of each reporting period do not reflect the exposure.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. FINANCIAL INSTRUMENTS (Continued)

### Market risk (Continued)

#### **Credit risk**

The credit risk of the Group mainly arises from bank balances and pledged bank deposits, trade receivables, deposit and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of bank balances and pledged bank deposits, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, ECL rate is assessed to be close to zero and no loss allowance was made as at 31 December 2022 and 2021.

The Group performs impairment assessment under ECL model prescribed by HKFRS 9, which permits the use of the lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL. It also considers available reasonable and supportive forward-looking information.

As at 31 December 2022 and 2021, trade receivables that were individually significant had been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to design and development, manufacturing; and distribution of watch products. As at 31 December 2022, the top three debtors and the largest debtor accounted for approximately 54% and 29% (2021: 69% and 40%) of the Group's trade receivables balance.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix. In this regard, the directors consider that the Group's credit risk is significantly reduced.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. FINANCIAL INSTRUMENTS (Continued)

### Market risk (Continued)

#### Credit risk (Continued)

The directors considered the credit risk of the Group's deposits and other receivables are relatively low as they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Thus, the directors considered the credit risk is insignificant and no loss allowance is recognised.

#### (a) Allowance for ECL of trade receivables

On that basis, the allowance for ECL of trade receivables as at 31 December 2022 and 2021 was determined as follows:

As at 31 December 2022	Probability of default approach							Total
	Current (not pass due)	More than 1 day but less than 90 days past due	More than 91 days but less than 180 days past due	More than 181 days but less than 365 days past due	More than 1 year but less than 2 years past due	More than 2 years but less than 3 years past due	More than 3 years	
- Group A	0.13%	1.41%	20.70%	20.70%	93.38%	100%	100%	
- Group B	0.13%	0.13%	1.41%	1.41%	3.14%	100%	100%	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross carrying amount								
- Group A	11,085	7,702	189	379	738	117	1	20,211
- Group B	632	910	378	911	321	133	-	3,285
ECL								
- Group A	15	108	39	78	690	117	1	1,048
- Group B	1	1	6	13	10	133	-	164
Allowance for ECL	16	109	44	91	700	251	1	1,212

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. FINANCIAL INSTRUMENTS (Continued)

### Market risk (Continued)

#### Credit risk (Continued)

##### (a) Allowance for ECL of trade receivables (Continued)

As at 31 December 2021	Probability of default approach						Total
	Current (not pass due)	More than 1 day but less than 90 days past due	More than 91 days but less than 180 days past due	More than 181 days but less than 365 days past due	More than 1 year but less than 2 years past due	More than 2 years but less than 3 years past due	
- Group A	0.08%	1.06%	1.06%	2.83%	20.74%	100%	
- Group B	0.05%	0.05%	-	-	-	-	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross carrying amount							
- Group A	8,955	3,154	357	158	254	1	12,879
- Group B	8,341	190	-	-	-	-	8,531
ECL							
- Group A	7	33	4	4	53	1	102
- Group B	4	-*	-	-	-	-	4
Allowance for ECL	11	33	4	4	53	1	106

\* The amount was less than HK\$1,000.

In valuation the ECL of trade receivables, gross carrying amount are classified to 2 main items. Group B represent large corporate customers with long term relationship, and Group A represent new customers and medium size customers.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. FINANCIAL INSTRUMENTS (Continued)

### Market risk (Continued)

#### Liquidity risk

For the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and bank overdrafts and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for their non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group has required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest cash flows are at floating rate, the undiscounted amount is derived from current interest rates at the end of each reporting period.

	Weighted average interest rate %	On demand or within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<b>As at 31 December 2022</b>							
Trade payables	-	39,258	-	-	-	39,258	39,258
Bills payables	-	54,421	-	-	-	54,421	54,421
Other payables and accrued expenses	-	4,884	-	-	-	4,884	4,884
Borrowings	4.85	41,358	17,262	43,215	3,525	105,360	102,315
Bank overdrafts	6.63	2,729	-	-	-	2,729	2,559
Lease liabilities	5.68	941	494	366	-	1,801	1,669
		143,591	17,756	43,581	3,525	208,453	205,106

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. FINANCIAL INSTRUMENTS (Continued)

### Market risk (Continued)

#### Liquidity risk (Continued)

	Weighted average interest rate %	On demand or within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<b>As at 31 December 2021</b>						
Trade payables	–	26,624	–	–	26,624	26,624
Bills payables	–	34,014	–	–	34,014	34,014
Other payables and accrued expenses	–	5,364	–	–	5,364	5,364
Borrowings	3.27	88,536	16,140	6,122	110,798	107,524
Bank overdrafts	6.01	3,495	–	–	3,495	3,298
Lease liabilities	5.27	1,689	970	917	3,576	3,295
		159,722	17,110	7,039	183,871	180,119

The following table summarises the maturity analysis of borrowings with repayable on demand clause based on agreed scheduled repayments set out in the loan agreements. The amount includes interest payments computed using contractual rates. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the bank will exercise its discretion to immediate repayment. The directors of the Company believe that such borrowings will be repaid in accordance with the scheduled dates set out in the loan agreements.

	<b>Maturity Analysis – borrowings subject to a repayment on demand clause based on scheduled repayments</b>				
	<b>On demand or within 1 year HK\$'000</b>	<b>More than 1 year but less than 2 years HK\$'000</b>	<b>More than 2 years but less than 5 years HK\$'000</b>	<b>More than 5 years HK\$'000</b>	<b>Total discounted cash flows HK\$'000</b>
At 31 December 2022	<b>38,504</b>	<b>1,237</b>	<b>3,010</b>	<b>2,615</b>	<b>45,366</b>
At 31 December 2021	80,768	1,342	2,141	–	84,251



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. FINANCIAL INSTRUMENTS (Continued)

### Market risk (Continued)

#### Liquidity risk (Continued)

Borrowings with repayment on demand clauses are included in the “on demand or within 1 year” time band in the above maturity analysis. As at 31 December 2022 and 31 December 2021, the aggregate carrying amounts of these borrowings amounted to HK\$45,366,000 and HK\$84,251,000, respectively. Taken into account the Group’s financial position, the directors of the Company do not believe that it is probable that the lenders will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

	Weighted average interest rate %	On demand or within 1 year HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	More than 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<b>At 31 December 2022</b>							
– Borrowings on demand or within one year	4.98	39,449	1,427	3,353	3,525	47,754	45,366
<b>At 31 December 2021</b>							
– Borrowings on demand or within one year	2.54	82,807	1,416	2,228	–	86,451	84,251

### Fair value measurements

The fair values of financial assets and financial liabilities are determined as follows:

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The carrying amount of other financial assets and liabilities carried at amortised cost, approximate their respective fair values due to the relatively short-term nature of these financial instruments.

For financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the input to the fair value measurements in its entirety.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 38. FINANCIAL INSTRUMENTS (Continued)

### Fair value measurements (Continued)

The table below gives the information about how the fair value of these financial assets and financial liabilities that are measured at fair value on a recurring basis are determined (in particular, the valuation technique(s) and input used).

The different level are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at 31 December 2022 HK\$'000	Fair value as at 31 December 2021 HK\$'000	Fair value hierarchy	Valuation technique and key input(s)
Unlisted club debentures	460	440	Level 2	Market approach – Reference to price quoted in the secondary market
Key management personnel life insurance policies	18,408	18,097	Level 2	Market approach – redemption value quoted by the insurance company
Held-for-trading securities	4,651	146	Level 1	Market approach – quoted price in an active market

There were no transfer between Level 1 and Level 2, or transfers into or out of Level 3, during the years ended 31 December 2022 and 2021.

Some of the Group's financial assets are measured at fair value at the end of each reporting period, details refer to the respective notes.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position are approximate their fair values.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 39. PARTICULARS OF SUBSIDIARIES

At the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiaries	Principal place of business and place and date of incorporation	Legal entity	Issued and fully paid share capital/ registered capital at the date of this report	Attributable equity interest held by the Company As at 31 December		Principal activities	Note
				2022 %	2021 %		
Direct held:							
Beyond Blossom Investments Limited	BVI, 9 May 2017	Limited liability company	Ordinary shares US\$5	100	100	Investment holding	(a)
Indirectly held:							
Precise Time Global Limited	BVI, 10 May 2017	Limited liability company	Ordinary shares US\$1	100	100	Investment holding	(a)
Big Hope Investments Limited	BVI, 9 May 2017	Limited liability company	Ordinary shares US\$1	100	100	Investment holding	(a)
Diamond Fountain Investments Limited	BVI, 9 May 2017	Limited liability company	Ordinary shares US\$1	100	100	Investment holding	(a)
Vast Peak Enterprises Limited	BVI, 21 September 2011	Limited liability company	Ordinary shares US\$2	100	100	Investment holding	(a)
Talent Gift International Limited	BVI, 3 January 2017	Limited liability company	Ordinary shares US\$1	100	100	Investment holding	(a)
3 Wells Watch Industries Limited	Hong Kong, 2 September 1986	Limited liability company	Ordinary capital HK\$1,000,000	100	100	Trading and distribution of watches	
Cheer China Group Holdings Limited	Hong Kong, 3 August 2011	Limited liability company	Ordinary capital HK\$1	100	100	Investment holding	
Cheer Wells Trading Limited	Hong Kong, 2 February 2015	Limited liability company	Ordinary capital HK\$10,000	100	100	Investment holding	
Creative Profit Investment Limited	Hong Kong, 22 May 2008	Limited liability company	Ordinary capital HK\$31,619,215	100	100	Investment holding	
YOLO NFT Limited	Hong Kong, 24 January 2020	Limited liability company	Ordinary capital HK\$1,100	64*	64	Development and operation of information technology	
Shenzhen 3 Wells Watch Company Limited	PRC 8 August 2005	Registered as a wholly Foreign Owned Enterprise under PRC law	Registered capital HK\$10,000,000	100	100	Manufacturing of watches	

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 39. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiaries	Principal place of business and place and date of incorporation	Legal entity	Issued and fully paid share capital/ registered capital at the date of this report	Attributable equity interest held by the Company As at 31 December		Principal activities	Note
				2022 %	2021 %		
Shenzhen Fujing Precision Technology Company Limited	PRC 24 September 2019	Registered as a wholly Foreign Owned Enterprise under PRC law	Registered capital RMB18,000,000	100	100	Manufacturing of watches	
Shenzhen Fuyang Precision Technology Company Limited	PRC 26 September 2019	Registered as a wholly Foreign Owned Enterprise under PRC law	Registered capital RMB10,000,000	100	100	Inactive	

\* In May 2021, certain independent third parties made a capital injection to YOLO NFT Limited and the equity interest held by the Group was diluted to 64%.

All subsidiaries now comprising the Group have adopted 31 December as their financial year end date.

Note:

- (a) No audited financial statements have been prepared since its date of incorporation as it is incorporated in a jurisdiction where there is no statutory audit requirement.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2022 HK\$'000	2021 HK\$'000
<b>Non-current asset</b>			
Investments in a subsidiary		–	–
<b>Current assets</b>			
Other receivables and prepayments		1,303	211
Amounts due from fellow subsidiaries (Note)		39,091	31,778
Bank balances and cash		182	105
		<b>40,576</b>	32,094
<b>Current liabilities</b>			
Other payables and accrued expenses		1,455	1,159
Amounts due to fellow subsidiaries (Note)		36,476	32,220
		<b>37,931</b>	33,379
<b>Net current assets (liabilities)</b>		<b>2,645</b>	(1,285)
<b>Total assets less current liabilities</b>		<b>2,645</b>	(1,285)
<b>Net assets (liabilities)</b>		<b>2,645</b>	(1,285)
<b>Capital and reserves</b>			
Share capital	29	16,500	10,000
Reserves	30	(13,855)	(11,285)
<b>Total equity (deficit)</b>		<b>2,645</b>	(1,285)

Note: Amounts due from/to fellow subsidiaries are unsecured, interest free and repayable on demand.

The consolidated financial statements were approved and authorised for issue by the board of directors on 24 March 2023 and signed on its behalf by:

**CHEUK Sin Cheong Clement**  
Executive Director

**AU Corona Ching Mei**  
Executive Director

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2022

## **41. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to current year's presentation.

## **42. AUTHORISATION FOR ISSUE OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved and authorised for issue by the board of directors on 24 March 2023.

# Financial Summary

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years. The financial information for the year 2022 is extracted from the consolidated financial statements in this annual report.

	<b>Results of the Group for the year ended 31 December</b>				
	<b>2022 HK\$'000</b>	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000
Revenue	<b>272,555</b>	204,495	139,335	198,050	182,478
Loss before tax	<b>(10,518)</b>	(2,902)	(26,186)	(13,873)	(4,501)
Income tax (expense) credit	<b>(600)</b>	110	(22)	(675)	(2,603)
Loss for the year	<b>(11,118)</b>	(2,792)	(26,208)	(14,548)	(7,104)
Other comprehensive (expense) income for the year	<b>(6,426)</b>	1,940	3,053	463	(78)
Total comprehensive expense for the year	<b>(17,544)</b>	(852)	(23,155)	(14,085)	(7,182)

	<b>Assets and liabilities of the Group as at 31 December</b>				
	<b>2022 HK\$'000</b>	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000
<b>Assets and Liabilities</b>					
Non-current assets	<b>75,945</b>	83,574	83,118	52,975	51,070
Current assets	<b>169,714</b>	137,565	127,197	146,643	150,903
Total assets	<b>245,659</b>	221,139	210,315	199,618	201,973
Current liabilities	<b>150,878</b>	158,914	118,869	134,898	123,306
Non-current liabilities	<b>56,119</b>	23,255	51,624	1,743	1,605
Net assets	<b>38,662</b>	38,970	39,822	62,977	77,062

HANVEY GROUP HOLDINGS LIMITED  
恆偉集團控股有限公司