



顺客隆

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中國順客隆控股有限公司

CHINA SHUN KE LONG HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 974

ANNUAL REPORT 2023



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Shang Duoxu (*Chairman*)
Mr. Han Wei (*Chief Executive Officer*)

Non-Executive Director

Ms. Wang Hui

Independent Non-Executive Directors

Mr. Cheng Hok Kai Frederick
Mr. Ma Ren
Mr. Gao Jingyuan

AUDIT COMMITTEE

Mr. Cheng Hok Kai Frederick (*Chairman*)
Mr. Ma Ren
Mr. Gao Jingyuan

REMUNERATION COMMITTEE

Mr. Gao Jingyuan (*Chairman*)
Mr. Shang Duoxu
Mr. Ma Ren

NOMINATION COMMITTEE

Mr. Shang Duoxu
Mr. Ma Ren
Mr. Gao Jingyuan

AUTHORISED REPRESENTATIVES

Mr. Han Wei
Mr. Qiu Minghao

COMPANY SECRETARY

Mr. Qiu Minghao

COMPANY'S WEBSITE

www.skl.com.cn

STOCK CODE

974

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Guangdong Province, The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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REGISTERED OFFICE IN THE CAYMAN ISLANDS

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PRINCIPAL BANKERS

Agricultural Bank of China Limited Shunde Lecong
sub-branch
Guangdong Shunde Rural Commercial Bank Company
Limited Lecong sub-branch
China Construction Bank Corporation, Shunde Huabin
sub-branch
China Everbright Bank Hong Kong Branch

AUDITOR

SHINEWING (HK) CPA Limited
17/F, Chubb Tower, Windsor House,
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HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
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HONG KONG LEGAL ADVISER

Iu, Lai & Li Solicitors & Notaries
Rooms 2201, 2201A & 2202
22nd Floor, Tower I, Admiralty Centre
No. 18 Harcourt Road, Admiralty
Hong Kong

FINANCIAL SUMMARY

Results	For the year ended 31 December				
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Revenue	945,221	888,749	741,635	638,761	667,409
Gross profit	134,786	125,817	107,843	102,207	91,204
Profit (loss) from operation	(5,945)	(2,702)	(27,273)	(18,697)	(22,393)
Finance costs	10,084	11,483	10,590	4,641	4,404
Income tax expense (credit)	450	222	588	29	(772)
Profit (loss) for the year attributable to the owners of the Company	(20,626)	(16,501)	(38,045)	(25,000)	(26,754)
Total comprehensive income (expense) attributable to the owners of the Company	(19,850)	(18,162)	(38,409)	(24,155)	(26,415)
Dividend paid	Nil	Nil	Nil	Nil	Nil

Assets and liabilities	As at 31 December				
	2019 RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Non-current assets	163,375	186,444	170,933	132,586	131,072
Current assets	433,788	413,838	310,652	257,233	234,434
Current liabilities	174,094	284,003	224,702	172,976	170,265
Net current assets	259,694	129,835	85,950	84,257	64,169
Total assets less current liabilities	423,069	316,279	256,883	216,843	195,241
Non-current liabilities	165,472	76,810	56,035	40,083	44,826
Net assets	257,597	239,469	200,848	176,760	150,415
Equity attributable to owners of the Company	256,322	238,160	199,751	175,596	149,181

CHAIRMAN'S STATEMENT

Dear Shareholders,

China Shun Ke Long Holdings Limited (the "Company", collectively referred to as the "Group" with its subsidiaries) is an investment holding company, and the Group is a supermarket chain store operator with geographical focus in Guangdong province of the People's Republic of China (the "PRC"). The Group maintains two distribution channels, retail and wholesale.

MARKET CONDITION

The retail sector is an important component of the national economy and a commercial form closely connected to people's daily lives. In recent years, with the development of e-commerce and the transformation of the retail sector, an increasing number of innovative business formats have emerged. Particularly, in view of the post-pandemic era and the ongoing impact from the adaptation of 5G, marketing forms such as live-streaming marketing and community group purchase, have emerged. In addition, according to the National Bureau of Statistics, China's consumer confidence has declined since the second quarter of 2022, with a brief and insignificant recovery in the first quarter of 2023. Under the overall sluggish environment of the brick-and-mortar retail sector, some retail enterprises with shaky foundation have been eliminated by this wave of recession. A number of supermarket chain operators have closed their stores, which sounds an alarm for the retail industry. Business executives are adopting a variety of operational measures to enhance enterprise resilience, aiming to achieve sustainable growth in an evolving market environment. On the whole, the retail sector in the PRC shows a trend with both opportunities and challenges co-existing and business models constantly evolving.

As one of the top-ranked players in the retail sector in Guangdong, the Group will strive hard and move forward in the complicated and changing environment of the retail sector. The Group mainly adopts the business model of "retail + wholesale + centralized procurement and sale + online and offline integration + community marketing", adheres to the market-oriented approach, takes fresh food as a point for breakthrough, and integrates technology with retail services online and offline to keep up with the pace of digitalisation. While actively expanding the market in Guangdong-Hong Kong-Macao Greater Bay Area, the Group also seeks business opportunities in other provinces across the country, especially in Hainan Free Trade Zone, in a bid to expand its business territory. Through the consolidation of value chain resources from suppliers and service providers and business innovation among others, the Company will enhance its strength, so as to increase customer satisfaction, maintain brand value, and promote its stable and robust development.

RESULTS

For the year ended 31 December 2023 ("FY2023"), the Group's revenue amounted to approximately RMB667.4 million, representing an increase of approximately RMB28.6 million as compared to that for the year ended 31 December 2022 ("FY2022"). The increase in revenue was mainly attributable to the addition of the centralised procurement and sale business during the year, as well as the increase in overall revenue as a result of the addition of the distribution rights for various brands in wholesale distribution, such as Hot-kid, Yili, C&S, Huafeng Noodle and Red Rice Wine. Loss attributable to owners of the Company for FY2023 amounted to approximately RMB26.8 million, representing an increase in loss of approximately RMB1.8 million as compared with that for FY2022, which resulted in an increase in loss attributable to owners of the Company, mainly due to the decrease in overall gross profit amount as a result of the decline in gross profit margins, as well as the decrease in other revenues, such as rental income and income from suppliers.

CHAIRMAN'S STATEMENT

OUTLOOK

Although China's economy and consumer market have been recovering positively, consumer confidence remains weak with low consumer sentiment due to increased economic pressure, changes in consumer attitudes after the pandemic, and insufficient spending by residents. The Central Economic Work Conference in 2023 emphasised "seeking progress while stabilising and expanding domestic demand". With the gradual policy reinforcement and consumer confidence boost, we have been looking forward to further market recovery.

Despite the overall sluggish retail industry, the Group will respond calmly by leveraging on the influence and resources of the All China Federation of Supply and Marketing Cooperatives to proactively accelerate breakthroughs to adapt to market changes. Our goal is to steadily expand the Group's business presence. The Group has created "Shun Ke Long Fresh Market", a community-base fresh produce business format from Shun Ke Long, with a number of outlets opened for now. The success of this profitability model will lay the foundation for the key business format transformation of the Group in the coming years. Supply chain is still the key to competition in fresh produce business. This is a golden rule of thumb. In FY2023, the Group established partnerships with more fruit and vegetable bases to strengthen the supply of fresh produce. The Group holds exclusive distribution rights for 24 brands in Foshan and Zhaoqing and has over 1,000 franchise stores. There are 353 suppliers with whom the Group cooperates. The Group will strengthen its supply chain by gaining access to, directly purchasing, and integrating upstream commodities. With its market share continuously eroded by the e-commerce platforms and community group purchase, and the emphasis put on the new retail transformation and upgrade, the Group will track the pace of the market, pay close attention to the changes of customer needs in a real-time manner, and accelerate the pace of the development of online platforms. The Group attaches importance to community marketing and vigorously develops 24-hour AI intelligent unmanned stores. Meanwhile, the Group adopts self-operated platforms and multi-platform cooperation to achieve online and offline traffic attraction through its own platforms "SKL Select" and "Yubangxing Mini APP". At the same time, the Group strengthens its cooperation with third-party e-commerce platforms, such as Meituan, Ele.me, JD Home, etc., in order to effectively increase its sales.

ACKNOWLEDGEMENT

I would like to take this opportunity to sincerely thank our shareholders and stakeholders for their consistent support and trust, and thank directors for their concerted efforts and profound insights over the years. I would also like to express my sincere gratitude to our management and employees for their dedication and commitment. I hope that the Group's performance will improve in the coming year and compose a new chapter to create better returns to the shareholders!

Shang Duoxu
Chairman

15 April 2024

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China Shun Ke Long Holdings Limited (the “Company”, collectively referred to as the “Group” with its subsidiaries) is an investment holding company, and the Group is a supermarket chain store operator with geographical focus in Guangdong province of the People’s Republic of China (the “PRC”). During the year ended 31 December 2023 (the “FY2023” or the “Year”), the Group maintained both retail and wholesale distribution channels.

Retail Outlets

During the FY2023, the Group opened 4 retail outlets and closed 10 retail outlets. As at 31 December 2023, the Group had 60 retail outlets located in Guangdong province of the PRC and 1 retail outlet located in the Macau Special Administrative Region (“Macau”) of the PRC, respectively.

The following table sets forth the changes in the number of retail outlets of the Group during the FY2023 and the year ended 31 December 2022 (the “FY2022”):

	For the year ended 31 December	
	2023	2022
At the beginning of the year	67	68
Additions	4	1
Reductions	(10)	(2)
At the end of the year	<u>61</u>	<u>67</u>

The following table sets forth the breakdown of the number of retail outlets of the Group by geographical location as at 31 December 2023:

Location	Number of retail outlets
Foshan	49
Zhaoqing	6
Zhuhai	3
Guangzhou	1
Shenzhen	1
Guangdong Province	60
Macau	1
Total	<u>61</u>

MANAGEMENT DISCUSSION AND ANALYSIS

General Wholesale

During the FY2023, the Group managed to keep all sole and exclusive distribution rights that it gained prior to the FY2023. The Group maintained sole and exclusive distribution rights for 24 brands covering Foshan and Zhaoqing. The exact coverage of the Group's sole and exclusive distribution rights varied among those 24 brands. Instead of developing the size of general wholesale customer base, the Group put more emphases on gaining more sub-distributors rather than retailers as the Group's customers.

Franchise Operation

The Group has a franchise scheme opened for application by interested parties to franchise retail outlets. The proceeds from selling goods to franchisees of the Group form a part of its wholesale distribution revenue.

The following table sets forth the changes in number of franchise outlets of the Group during the FY2023 and FY2022:

	For the year ended 31 December	
	2023	2022
At the beginning of the year	823	625
Additions	185	198
At the end of the year	<u>1,008</u>	<u>823</u>

RECENT DEVELOPMENTS AND OUTLOOK

During the post-pandemic era, the consumer habits and business formats of the retail sector have changed significantly. Online channels have penetrated into all walks of life and become a standard configuration for retail companies. At the same time, the emergence of community group buying has impacted brick-and-mortar retailers. In 2023, with the recovery of the offline consumption, the vitality of consumption was further unleashed. However, consumer confidence remained weak, and there was a need to further enhance consumers' consumption ability and willingness. The top priority for retail and consumer goods companies now is to manage consumer-oriented operations more efficiently and drive sustainable spending among existing consumers. The traditional supermarket sector has to change its operating models to actively accelerate breakthroughs and adapt to market changes. The key is to undertake transformation and upgrade in direction of being more professional and specialised. Players in the traditional supermarket industry have begun to focus on its internal strengths, fine-tuning its management, opening up the supply chain, and continuing to improve the fundamentals of their outlets.

MANAGEMENT DISCUSSION AND ANALYSIS

In face of such a severe situation, the Group prudentially responded and took the following major measures during the Year to stabilise results: (i) the Group continued to expand, and diversify the profit model of, the “Shun Ke Long Fresh Market” stores, concentrating on the growth of the fresh produce business; (ii) the Group upgraded and renovated the stores with limited profitability and opened more 24-hour AI intelligent unmanned stores; (iii) leveraging the advantages of our supply and marketing chain and brand, the Group aimed to expand the number of franchises through brand, product, and management export, enhancing business growth while properly managing risks; (iv) the Group made direct procurement from bases to effectively reduce procurement costs and increase the gross profit margin; (v) to adapt to the market trend, the Group created video accounts on platforms such as Kuaishou and Tiktok for ongoing live streaming, making continuous and effective efforts in online sales to cater to consumers’ consumption habits; (vi) the Group continued to expand its online platforms by vigorously developing the its own e-commerce platforms, “SKL Select” and “Yubangxing Mini APP,” to integrate online and offline sales; and (vii) the Group paid great attention to hot and promotional windows and activities, such as several e-commerce shopping festivals and events of Middle Autumn Day, National Day, 21% off year-end promotions, and Members Day on Tuesdays.

Despite the current complicated and rigorous operating environment of the retail sector, the Group will continue to focus on the supermarket chain business, expand the size of regional outlets, and explore the consumption potential in Foshan, Zhaoqing and Zhuhai. Grasping the development opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area, it will develop into an influential leading supermarket chain store operator in the area. Through reform, transformation, innovation and improvement, the Group will adhere to the marketing strategy of “retail + wholesale + centralized procurement and sale + online and offline integration + community marketing”. Based on brick-and-mortar retail, the Group will prioritise “new retail” and develop an omni-channel sales approach covering online and offline, in order to actively expand innovative businesses and stabilise revenue.

In addition to the continuous efforts above, the Group will also strive to complete the following tasks in 2024: (i) leveraging the influence and resources of the All China Federation of Supply and Marketing Cooperatives, the Group will actively adjust its business development direction to seek development opportunities beyond Guangdong Province; (ii) the Group will vigorously develop 24-hour AI intelligent unmanned stores to generate revenue through direct operation or franchising; (iii) the Group will strive to develop “Shun Ke Long Fresh Market” community-based directly-managed stores in the Guangdong-Hong Kong-Macao Greater Bay Area; (iv) the Group will continuously upgrade and renovate old stores, and adjust the category structure to further optimise the store environment and shopping experience, aiming to increase revenue; (v) the Group will tap into the operation of fresh produce specialties and increase efforts to strengthen direct procurement or joint procurement from fresh produce bases to enhance the competitiveness of fresh produce. The goal is to transform the fresh produce business into an important category for attracting and retaining customer flow in brick-and-mortar stores; (vi) the Group will continue to develop marketing of video accounts on platforms like Kuaishou and Tiktok. It will expand its online platforms by vigorously developing its own e-commerce platforms, “SKL Select” and “Yubangxing Mini APP”, to integrate online and offline sales, thereby facilitating the growth of results; (vii) leveraging on the Group’s complete upstream and downstream supply and marketing system and distribution and warehousing conditions and relying on favourable policies of the Hainan Free Trade Port and Guangdong-Hong Kong-Macao Greater Bay Area, the Group is committed to explore and expand the scale of its international business; and (viii) the Group aims to improve employees’ productivity comprehensively by introducing a number of incentives, trainings and performance goals, effectively enhancing their overall quality and performance.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY RISKS AND UNCERTAINTIES

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

Fierce Competition in Expanding Retail Outlets Network

Under fierce competition in the retail industry, we are facing various local and foreign competitors. Our future growth and profitability depend in part on our ability to expand our business presence and network in the Greater Bay Area and to implement our expansion plan. Particularly, it is subject to the risks and uncertainties as to our ability to identify suitable sites for new retail outlets, availability of resources and funding for expansion plan, our ability to attract management talents, and our ability to obtain government approvals, among others. If we fail to implement the expansion plan, our results of operations may be adversely affected.

Change in Consumer Preferences

Consumer preferences in the PRC are changing at a rapid pace and are affected by many factors such as economic conditions, disposable income, government policies, family structure, trend, and many other factors. The success of our business depends on our ability to provide products that meet the customer demands. If we fail to accurately forecast and adjust our product mix in time to meet the consumer demands and preferences, our results of operations may be adversely affected.

Thin Profit Margin

As the Group is facing keen competition from other players in the supermarket industry and online retailers, and due to the increase in the operating costs, the profit margin has been squeezed. If there is any occurrence of unfavourable event such as the outbreak of infectious disease e.g., COVID-19, concern over safety of product, price advantage of our competitors etc., our volume of products sold, selling prices or costs of sales may be adversely affected.

Competition from Online Retailing Platform

Online retailing platform has been rising abruptly these years. Based on its inherent attributions such as efficiency, it has been threatening our retail outlets or slowing down our pace of expanding our retail outlets network before we establish our own robust online retailing channels. As such, this further the competition in this supermarket operation industry.

High Staff Turnover Rate

The Group is mainly engaged in the supermarket business, which has a high demand for staff. Shortage of manpower or higher employee turnover rate may adversely affect our business, operating results and expansion plans. In recent years, the turnover rate of younger people working in our business has been on the rise.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the FY2023, the Group's revenue amounted to approximately RMB667.4 million, representing an increase of approximately RMB28.6 million or 4.5% over the revenue for the FY2022. The increase in revenue was mainly due to the addition of the centralised procurement and sale business during the Year, as well as the increase in overall revenue as a result of the addition of the distribution rights for various brands in wholesale distribution, such as Hot-kid, Yili, C&S, Huafeng Noodle and Red Rice Wine.

For the FY2023, the Group's revenue from retail outlet operation was approximately RMB532.4 million, representing an increase of approximately RMB0.7 million or 0.1% from the FY2022. The increase in revenue was mainly due to the addition of the centralised procurement and sale business during the Year.

For the FY2023, the Group's revenue from wholesale distribution operation was approximately RMB135.0 million, representing an increase of approximately RMB27.9 million or 26.1% from the FY2022. The increase in revenue was mainly due to the addition of distribution rights for a number of brands such as Hot-kid, Yili, C&S, Huafeng Noodle and Red Rice Wine.

Gross Profit Margin

For the FY2023 and FY2022, the Group's gross profit margin was 13.7% and 16.0%, respectively. Such decrease was mainly attributable to the low gross profit margin of the centralised procurement and sale business in the Year, and the decrease in rental income from retail outlets and merchandise parity subsidy.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the breakdowns of the revenue, cost of inventories sold and gross profit in respect of the two business segments of the Group for the FY2023 and the FY2022:

	For the year ended 31 December	
	2023 RMB'000,000	2022 RMB'000,000
Revenue		
Retail outlet operation	532.4	531.7
Wholesale distribution	135.0	107.1
	<hr/>	<hr/>
Total	<u>667.4</u>	<u>638.8</u>
Cost		
Retail outlet operation	447.6	435.3
Wholesale distribution	128.6	101.3
	<hr/>	<hr/>
Total	<u>576.2</u>	<u>536.6</u>
Gross profit		
Retail outlet operation	84.8	96.4
Wholesale distribution	6.4	5.8
	<hr/>	<hr/>
Total	<u>91.2</u>	<u>102.2</u>
Gross profit margin		
Retail outlet operation	15.9%	18.1%
Wholesale distribution	4.7%	5.4%
	<hr/>	<hr/>
Total	<u>13.7%</u>	<u>16.0%</u>

Other Operating Income

For the FY2023, the Group's other operating income was approximately RMB24.4 million, representing a decrease of approximately RMB0.5 million or 2.1% from the FY2022. Such decrease was mainly due to the decrease in promotional income from suppliers, government subsidies, interest income from bank deposits and franchise income.

Selling and Distribution Costs

For the FY2023, the Group's selling and distribution costs were approximately RMB111.9 million, representing a decrease of approximately RMB6.1 million or 5.2% from the FY2022. This decrease was primarily due to lower labour costs, property costs, and utility costs as a result of the closure of certain outlets.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

For the FY2023, the Group's administrative expenses were approximately RMB26.1 million, representing a decrease of approximately RMB1.7 million or 6.2% from the FY2022, which was mainly attributable to the year-on-year decrease in labour costs and the year-on-year decrease in taxes and other expenses.

Finance Costs

For the FY2023, the Group's finance costs were approximately RMB4.4 million, representing a decrease of approximately RMB0.2 million or 5.1% from the FY2022. The decrease was mainly due to lower interest expenses on short-term borrowings.

Impairment Losses Recognised in Property, Plant and Equipment and Right-of-use Assets

In the FY2023, the management performed an impairment assessment of property, plant and equipment and right-of-use assets of the Group. Accordingly, no impairment loss has been incurred on the Group's property, plant and equipment, and there was no impairment loss of right-of-use assets. The recoverable amount of a cash generating unit is determined based on a discounted pre-tax cash flow projection, prepared in accordance with the financial budgets approved by management.

Income Tax Credit(Expense)

For the FY2023, the Group's income tax credit amounted to approximately RMB772,000, as compared to the income tax expense of approximately RMB29,000 for the FY2022. The change was mainly due to the fact that with the adoption of the new amendments to IFRSs by the Group, the difference between the deferred income tax assets recognised in the right-of-use assets and the deferred income tax liabilities recognised in the lease liabilities for the FY2023 was offset by the income tax expense.

Net Loss

For the FY2023, the net loss attributable to equity shareholders of the Group amounted to approximately RMB26.8 million, representing an increase in loss of approximately RMB1.8 million or 7% as compared with that of the FY2022. The increase in loss was mainly due to the decrease in overall gross profit amount as a result of the decline in gross profit margins, as well as the decrease in other revenues, such as rental income and income from suppliers.

Total Comprehensive Expense

For the FY2023, the Group's total comprehensive expense attributable to the equity shareholders was approximately RMB26.4 million, representing an increase in loss of approximately RMB2.3 million or 9.5% from the FY2022. The depreciation of RMB against Hong Kong dollars resulted in an exchange gain of approximately RMB0.3 million on translation of the financial statements from the functional currency to the presentation currency in the FY2023, and the exchange gain offset other comprehensive expense.

Capital Expenditures

The Group's capital expenditures mainly relate to additions of its property, plant and equipment and right-of-use assets for the opening of new retail outlets and renovation of existing retail outlets. For the FY2023, the Group spent approximately RMB5.3 million and RMB48.2 million on the acquisition of property, plant and equipment and right-of-use assets, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Commitments

As at 31 December 2023, the Group had no significant capital commitments (31 December 2022: nil).

Liquidity and Financial Resources

As at 31 December 2023, the Group had cash and cash equivalents of approximately RMB48.7 million (31 December 2022: approximately RMB49.0 million), out of which approximately RMB45.7 million was denominated in RMB and approximately RMB3 million was denominated in HK\$ or MOP.

As at 31 December 2023, the Group had net current assets of approximately RMB64.2 million (31 December 2022: approximately RMB84.3 million) and net assets of approximately RMB150.4 million (31 December 2022: approximately RMB176.8 million). As at 31 December 2023, the Group had unutilised banking facilities of approximately RMB62.0 million (31 December 2022: RMB100.0 million).

In order to minimise credit risk, the management of the Group has assigned responsible staff to determinate credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The management considered that risk of default in respect of trade and other receivables is low and thus the identified impairment loss was immaterial.

Significant Investments and Plans for Material Investments or Capital Assets

The Group did not hold any significant investments during the FY2023.

Material Acquisitions and Disposals

The Group did not carry out any material acquisition nor disposal of any subsidiary during the FY2023.

Indebtedness and Pledge of Assets

As at 31 December 2023, the Group had bank borrowings denominated in RMB of approximately RMB28.0 million (31 December 2022: approximately RMB8.0 million) secured by:

- (i) the pledge of certain buildings of the Group with carrying amounts of approximately RMB11.0 million at 31 December 2023 (31 December 2022: approximately RMB10.5 million);
- (ii) the pledge of certain right-of-use assets of the Group with carrying amounts of approximately RMB19.2 million at 31 December 2023 (31 December 2022: approximately RMB19.2 million);
- (iii) the pledge of certain investment properties of the Group with carrying amounts of approximately RMB8.7 million at 31 December 2023 (31 December 2022: approximately RMB9.0 million).

All those bank borrowings were repayable within a year. The interests of those loans were at fixed rate of 3.95% per annum (31 December 2022: at fixed rate of 4.90% per annum).

MANAGEMENT DISCUSSION AND ANALYSIS

Key Financial Ratios

The following table sets forth the key financial ratios of the Group for the FY2023 and the FY2022:

	For the year ended 31 December	
	2023	2022
Debtors turnover days	18.0	15.3
Inventory turnover days	60.1	74.7
Creditors turnover days	55.1	59.6
Return on equity	-17.9%	-14.2%
Return on total assets	-7.3%	-6.4%
Total loans (RMB'000,000)	28.0	8.0
Total equity (RMB'000,000)	150.4	176.8
Gearing ratio	18.6%	4.5%
Net debt to equity ratio	Net cash	Net cash
Current ratio	1.4x	1.5x
Quick ratio	0.9x	0.8x

Note: Gearing ratio is calculated as total loans divided by total equity.

Foreign Currency Exposure

Majorities of the Group's assets, liabilities and cash flows were denominated in RMB and part of the Group's assets were denominated in HK\$. During the FY2023, the depreciation of RMB against HK\$ had no impact from translation as the reporting currency of the Group was RMB. Apart from that, the management of the Company viewed that the change in exchange rate for RMB against foreign currencies did not have significant impact on the Group's financial position nor performance given that the functional currency of the Group was RMB. During the FY2023, the Group did not engage in any hedging activities and the Group had no intention to carry out any hedging activities in the near future. The management of the Group will continue to closely monitor the foreign currency market and consider carrying out hedging activities when necessary.

Contingent Liabilities

As at 31 December 2023, the Group did not provide any guarantee for any third party and did not have any significant contingent liabilities.

Employees

The Group had a total of 951 employees as at 31 December 2023, of which 942 employees worked in the mainland of the PRC and 9 worked in Hong Kong. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training for staff and bonuses based upon staff performance and profit of the Group. During the FY2023, the Group had not caused any significant impact on its operation due to labour disputes nor had it experienced any difficulty in the recruitment of experienced staff. The Group maintains a good relationship with its employees.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Shang Duoxu (“Mr. Shang”), aged 38, has been appointed as the Chairman and an executive Director of the Company since 25 February 2022. Mr. Shang has been serving as the chairman of the board of directors of CCOOP Group Co., Ltd.* (供銷大集集團股份有限公司) (“CCOOP”), the Company’s controlling shareholder and a company listed on the Shenzhen Stock Exchange (stock code: 000564), since January 2022, and a supervisor and a member of safety committee of Hainan HNA No. 2 Trust Management Service Co., Ltd. Since February 2022 and June 2022 respectively.

Over the years, Mr. Shang held various other positions in the HNA Group Co., Ltd* (海航集團有限公司) (“HNA Group”) and its subsidiaries. He previously served as a financial controller of Non-Aviation Asset Management Division* (非航空資產管理事業部) of HNA Group between October 2019 to May 2022. He served as the chairman of the board of directors and a financial controller of Northeast Electric Development Co. Ltd. (東北電氣發展股份有限公司), a company incorporated in China and listed on the Stock Exchange of Hong Kong Limited (“Stock Exchange”) (stock code: 0042) and previously listed on the Shenzhen Stock Exchange (stock code: 000585) but was delisted on 24 May 2022, between August 2021 to December 2022 and between July 2021 and October 2021 respectively. Mr. Shang served as a deputy financial controller and the financial controller of HNA Logistics Group Co., Ltd* (海航物流集團有限公司) between October 2018 and October 2019; a director and a financial controller of Hainan Airport Infrastructure Co., Ltd* (海南機場設施股份有限公司) (formerly known as HNA Infrastructure Investment Group Co., Ltd.* (海航基礎設施投資集團股份有限公司)) (“Hainan Airport”), a company incorporated in China and listed on the Shanghai Stock Exchange (stock code: 600515), between April 2019 and February 2020, and January 2016 and October 2018, respectively; a financial controller of Hainan Island Construction Co., Ltd* (海南海島建設股份有限公司) in January 2016; a general manager of Planning and Finance Department of Haihang Commercial Holding Co., Ltd.* (海航商業控股有限公司) (“Haihang Commerce”) between March 2015 and January 2016; a manager of Fund Management Centre of Planning and Finance Department of HNA Industrial Group Co., Ltd.* (海航實業集團有限公司) between August 2013 and March 2015; a deputy general manager of Finance Affairs Centre of HNA Holding (Group) Co., Ltd.* (海航實業控股(集團)有限公司) between November 2012 and August 2013; a deputy general manager of Planning and Finance Department of Haihang Real Estate Holding (Group) Co., Ltd.* (海航地產控股(集團)有限公司) between February 2012 and November 2012; a financial controller of Hainan Trans Service Sales Management Company Limited* (海南海島一卡通匯營銷管理有限公司) between December 2011 and February 2012; and a manager of Investment and Financing Centre of Planning and Finance Department of Hainan Airlines International Tourism Island Development Construction (Group) Limited* (海航國際旅遊島開發建設(集團)有限公司) between November 2010 and December 2011.

Mr. Shang graduated from Chengdu University of Technology (成都理工大學) with a bachelor’s degree in economics in 2008, and obtained a master’s degree in finance from Tulane University (杜蘭大學) in 2019.

According to the “Decision on the Measure of Issuing a Warning Letter in relation to Shang Duoxu” ([2019] No. 4) (《關於對尚多旭採取出具警示函措施的決定》([2019]4號)) published by Hainan Regulatory Bureau (the “Bureau”) of China Securities Regulatory Commission (中國證券監督管理委員會海南監管局) (the “CSRC”) in January 2019, the CSRC issued a warning letter to Hainan Airport and Mr. Shang. Mr. Shang who was the then financial controller of Hainan Airport was found liable to the failure to (a) disclose the excess of limit of the guarantee provided by Hainan Airport and its subsidiaries to its shareholders, actual controllers and associates in the 2017 annual report and (b) obtain approval from its board of directors and shareholders in respect of such excess.

DIRECTORS AND SENIOR MANAGEMENT

According to the Decision of Administrative Penalties ([2022] No. 51) (《行政處罰決定書》([2022]51號)) published by the CSRC in September 2022, the CSRC issued a warning and imposed a fine of RMB200,000 against, inter alia, Mr. Shang. Mr. Shang who was the then chief financial officer and director of Hainan Airport was found liable to the failure to disclose certain non-operating related party transactions and provision of guarantees in the 2018-2020 semi-annual reports and 2018-2019 annual reports of Hainan Airport. Based on (a) the CSRC decision, (b) the inaccurate information in the profit alert announcement published by Hainan Airport on 23 January 2020 and (c) the delay in publishing the clarification announcement on 23 April 2020 in respect of the expected profit/loss for the 2019 financial year, the Shanghai Stock Exchange imposed a public reprimand against, among others, Hainan Airport and Mr. Shang pursuant to the decision on disciplinary actions against Hainan Airport Infrastructure Co., Ltd and relevant parties ([2022] No. 128) (《關於對海南機場設施股份有限公司及有關責任人予以紀律處分的決定》([2022]128號)) in September 2022.

Mr. Han Wei (“Mr. Han”), aged 42, was appointed as a non-executive Director of the Company on 10 June 2017, and re-designated as an executive Director and the Chief Financial Officer of the Company on 13 September 2017. Mr. Han resigned as the Chief Financial Officer and was appointed as the Chief Executive Officer of the Company on 27 July 2020. Mr. Han has been appointed as a director of Hong Kong Shun Ke Long International Limited, Shun Ke Long International Limited, Ozone Supply Chain International Limited and Ozone Supply Chain Management Limited, all of which are wholly owned subsidiaries of the Company, on 5 August 2020. Mr. Han has been serving various positions among the Company’s controlling shareholders and their subsidiaries, including as a director of CCOOP since 2017, deputy chairman of CCOOP since April 2021, an executive director of Green Industrial (HK) Holding Co., Limited* (綠色實業(香港)有限公司) since 2016, and chairman of Hainan Seaview International Plaza limited* (海南望海國際商業廣場有限公司) since April 2023.

Mr. Han previously served as the financial controller between 2017 and 2018 and the president between 2019 to February 2021 of CCOOP. Mr. Han served as the chairman of the board of directors of Hainan CCOOP Digital Technology Industry Co., Ltd.* (海南供銷大集數字科技產業有限公司) (formerly known as Hainan CCOOP Financial Information Technology Co., Ltd. (海南供銷大集金服信息科技(有限)公司)) between 2019 to December 2020, the deputy financial controller and the general manager in the financial planning department of Hainan CCOOP Holding Ltd.* (海南供銷大集控股有限公司) between 2015 and 2016. Mr. Han has also been appointed as an executive director of Feihang Yuanchuang Investment Co., Ltd.* (飛航遠創投資有限公司) between 2016 to July 2017, a director of HNA Commence Holding Co., Ltd.* (海航商業控股有限公司) between 2016 to July 2020 and the chief financial officer and the financial controller of HNA Commence Holding Co., Ltd.* (海航商業控(有)限公 司) between 2015 and 2016, the executive deputy manager in the finance planning department of HNA Industrial Group Co., Ltd.* (海航實業集團有限公司) between 2013 and 2015, the vice president of the project construction department of HNA Industry Holding Co., Ltd.* (海航實業控(集)團有限公司) in 2012, the deputy general manager in the finance planning department of HNA Based Industry Group Co., Ltd.* (海航基礎產業集團有限公司) between 2012 and 2013, the assistant to the general manager in the finance department of Hainan Airlines Holding Co., Ltd.* (海南航空股份有限公司) between 2011 and 2012, and the fund planning and controlling manager and the fund planning supervisor both in the finance planning department of HNA Group Co., Ltd.* (海航集團有限公司) between 2008 and 2009 and between 2004 and 2008, respectively.

Mr. Han has graduated from Tsinghua University with an executive MBA degree in 2020. Prior to this, Mr. Han graduated from Xiamen University in China with a postgraduate diploma in 2006, and from Xi’an Jiaotong University in China with dual bachelor degrees in Economics and Law in 2004. Furthermore, Mr. Han is a senior economist. He has become an International Certified Public Accountant (ICPA) since March 2022.

DIRECTORS AND SENIOR MANAGEMENT

According to the Decision of Administrative Penalties ([2022] No. 52) (《行政處罰決定書》([2022]52號)) (the “2022 CSRC Decision”) published by the CSRC in September 2022, the CSRC issued a warning and imposed a fine of RMB700,000 against, inter alia, Mr. Han. Mr. Han who was the then president, the chief financial officer and a director of CCOOP was found liable to the failure to disclose certain non-operating related party transactions and provision of guarantees in the 2017-2019 semi-annual and annual reports and 2020 semi-annual report of CCOOP. Based on the 2022 CSRC Decision, the Shenzhen Stock Exchange imposed a public reprimand against, among others, CCOOP and Mr. Han pursuant to the decision on disciplinary actions against CCOOP Group Co., Ltd and relevant parties (Shenzhengshang [2022] No. 1142) (《關於對供銷大集集團股份有限公司及相關當事人給予紀律處分的決定》(深證上[2022]1142號)) (the “SZSE 2022 Decision”) in December 2022.

NON-EXECUTIVE DIRECTOR

Ms. Wang Hui, aged 49, has been appointed as non-executive Director of the Company since 25 February 2022. Ms. Wang Hui served as the Chief Financial Officer of the Company between 5 August 2020 and 25 February 2022. Ms. Wang Hui has been serving as a director and the president of CCOOP since March 2021 and February 2021 respectively.

Ms. Wang Hui previously served as a supervisor of Haihang Commerce between December 2017 and March 2023; the financial controller and supervisor of CCOOP between 2018 and 2021 and in 2018 respectively; a general manager of the Planning and Finance Department of CCOOP between 2016 and 2018; a financial controller of Hainan HNA Airline Sales Ltd.* (海南海航航空銷售有限公司) between 2013 and 2016; a general manager of Finance Department of Yuekai Securities Co., Ltd.* (粵開證券股份有限公司) (formerly known as Lianxun Securities Co., Ltd.* (聯訊證券有限責任公司)) between 2011 and 2013; an accountant of the Accounting Management Centre of Planning and Finance Department of HNA Group between 2006 and 2011; a finance manager of Finance Department of Sanya LSG Catering Co., Ltd* (三亞漢莎航空食品有限公司) between 2005 and 2006; a project manager of Hainan Efa Certified Public Accountants* (海南鄂發會計師事務所) between 2001 and 2004; and a financial manager of Sanya Branch of China Air Express Co., Ltd* (民航快遞三亞分公司) between 2000 and 2001.

Ms. Wang Hui graduated from the Party School of the Guizhou Provincial Committee of the Communist Party of China (中共貴州省委黨校) with a bachelor's degree in economics and management in 1998. She has been a certified public accountant in China since 2003.

According to the 2022 CSRC Decision, the CSRC issued a warning and imposed a fine of RMB700,000 against, inter alia, Ms. Wang Hui. Ms. Wang Hui who was the then supervisor, chairman of board of supervisors and chief financial officer of CCOOP was found liable to the failure to disclose certain non-operating related party transactions and provision of guarantees in the 2017-2019 semi-annual and annual reports and 2020 semi-annual report of CCOOP. Based on the 2022 CSRC Decision, the Shenzhen Stock Exchange imposed a public reprimand against, among others, CCOOP and Ms. Wang Hui pursuant to the SZSE 2022 Decision.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheng Hok Kai Frederick (“Mr. Cheng”), aged 60, was appointed as an independent non-executive Director of the Company on 27 July 2020. Mr. Cheng has been serving as an independent non-executive director and the chairman of the audit committee of CIMC Vehicles (Group) Co., Ltd. (中集車輛(集團)股份有限公司), a company listed on The Stock Exchange (stock code: 1839), and as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of JiaXing Gas Group Co., Ltd. (嘉興市燃氣集團股份有限公司), a company listed on the Stock Exchange (stock code: 9908) since 2019.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Cheng previously served various senior positions at other companies listed on the Stock Exchange. Mr. Cheng served as an independent non-executive director, the chairman of the audit committee, and a member of each of the nomination and remuneration committees of Luzhou Xinglu Water (Group) Co., Ltd. (瀘州市興瀘水務(集團)股份有限公司), a company listed on the Stock Exchange (stock code: 2281) between 2017 to 2022; served as an executive director of Sanai Health Industry Group Company Limited (三愛健康產業集團有限公司), a company listed on the Stock Exchange (stock code: 1889) in 2019, and served as the chief financial officer, the company secretary, an authorised representative under Rule 3.05 of the Listing Rules and the managing director of corporate finance and investment of PuraPharm Corporation Limited (培力控股有限公司), a company listed on the Stock Exchange (stock code: 1498) between 2010 and 2018. Prior to that, Mr. Cheng served as the finance director of Asia Pacific and Japan of Autodesk Asia Pte Ltd. between 2006 and 2008, the finance director of Pacific Rim of Mentor Graphics Asia Pte Ltd. between 2004 and 2006, the finance director of Asia Pacific and Japan of LSI Logic Hong Kong Limited between 1997 and 2004, and an audit assistant and a senior accountant of PricewaterhouseCoopers (formerly known as Price Waterhouse) between 1985 and 1988.

Mr. Cheng graduated from the University of New South Wales in Australia with a master's degree in accounting in 1992, and from the University of Salford in the United Kingdom with a bachelor's degree in finance and accounting in 1985. Mr. Cheng was admitted as an associate member of (i) CPA Australia (formerly known as Australian Society of Certified Practising Accounts), (ii) the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants), (iii) Governance Institute of Australia (formerly known as Chartered Secretaries Australia) and (iv) The Chartered Governance Institute, U.K. (formerly known as Institute of Chartered Secretaries and Administrators, U.K.) in 1992, 1992, 1996 and 1995, respectively, and then as the fellow member of such professional bodies in 2004, 2003, 2013 and 2012, respectively.

Mr. Ma Ren ("Mr. Ma"), aged 62, previously served as an independent director of Caissa Tosun Development Co., Ltd* (凱撒同盛發展股份有限公司), a company incorporated in China and listed on the Shenzhen Stock Exchange (stock code: 000796), from April 2022 to October 2022, and HNA Investment Group Co., Ltd.* (海航投資集團股份有限公司) ("HNA Investment"), a company incorporated in China and listed on the Shenzhen Stock Exchange (stock code: 000616), from June 2015 to July 2021. Mr. Ma has over 18 years of senior management experience in Industrial and Commercial Bank of China Limited (中國工商銀行) ("ICBC"). He was the branch manager and the secretary of Party Committee of Xi'an Economic Development District sub-branch, ICBC (中國工商銀行西安經濟技術開發區支行) from January 2012 to September 2016 and Xi'an Qujiang sub-branch, ICBC (中國工商銀行西安曲江支行) from September 2010 to January 2012, and the branch deputy manager and a member of Party Committee of Xi'an Tumen sub-branch, ICBC (中國工商銀行西安土門支行) from December 2006 to September 2010.

Mr. Ma obtained a master degree in economics and graduated in master of finance in 1993 and 1998 respectively, both from Shannxi Institute of Finance & Economics (陝西財經學院) (now known as School of Economics and Finance of Xi'an Jiaotong University (西安交通大學經濟與金融學院)). He was accredited as a senior economist by ICBC in December 2012, and obtained the qualification certificate for independent directors issued by the Shanghai Stock Exchange in April 2015.

Mr. Gao Jingyuan (former name: Gao Liqing) ("Mr. Gao"), aged 55, has over 8 years of senior management experience with the China Cooperative Trade Enterprises Association (中國合作貿易企業協會) ("CCTEA"). During his tenure, he held the positions of Vice President and Secretary-General from June 2016 to December 2023 and from May 2018 to December 2023 respectively. Since December 2023, he has been serving as the President of CCTEA. Mr. Gao was Deputy Secretary-General and Secretary-General of Commercial Culture Association of China (中國商業文化研究會) from November 2008 to May 2015 and from May 2015 to January 2017 respectively.

Mr. Gao completed the advanced training courses for postgraduates in business management in Beijing Technology and Business University (北京工商大學) in 2005, and obtained a bachelor's degree in economics from Shanxi University of Finance and Economics (山西財經大學) (formerly known as Shanxi Institute of Finance and Economics* (山西財經學院)) in 1992. He was accredited as Chief Editor by Economic Daily* (經濟日報社) in 2002.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Ms. Wang Yanfen, aged 48, has been appointed as the deputy Chief Executive Officer of the Company since 25 February 2022. Ms. Wang Yanfen has joined the Group for over 28 years. She first joined the Company in 1996 as a manager and is currently serving as a general manager of the Guangdong Shun Ke Long Commercial Chain Company Limited* (廣東省順客隆商業連鎖有限公司), a wholly-owned subsidiary of the Company. Ms. Wang Yanfen previously served as an executive director and the Chief Executive Officer of the Company between October 2013 and June 2017. Ms. Wang Yanfen is currently a deputy of the 17th People's Congress of Shunde District, Foshan City, Guangdong Province (廣東省佛山市順德區第十七屆人大代表), an executive chairman of Guangdong Chain Store and Franchise Association (廣東省連鎖經營協會), a March Eighth Red Banner Bearer (三八紅旗手) of Shunde District, a member of Shunde Federation of Industry and Commerce Executive Committee (順德區工商聯), a part-time vice president of the Women's Federation of Lecong Town, Shunde District (順德區樂從鎮婦聯) and the president of Women Entrepreneur Council of Lecong Town (樂從鎮女企業家協會). Ms. Wang Yanfen served as a deputy to the 14th People's Congress of Foshan City, Guangdong Province (廣東省佛山市第十四屆人大代表), a guest supervisor of People's Government of Lecong* (樂從鎮人民政府) and a women's representative in Lecong Town. She has been recognised and awarded with several honours as the "Woman Heros" in Shunde District, the "Industry Star", "Advanced Workers" and "Outstanding Members of the Communist Party" in Lecong Town.

Ms. Wang Yanfen graduated from Jinan University (暨南大學) majoring in business administration in 2004 and obtained her master's degree in business administration from Victoria University of Switzerland in 2015.

Mr. Zhao Xiaofei ("Mr. Zhao"), aged 35, has been appointed as Chief Finance Officer of the Company since 25 February 2022. Mr. Zhao has been serving as financial controller of CCOOP since January 2023. Mr. Zhao previously served as a deputy general manager of the Financial Planning Department of CCOOP between June 2018 to January 2023; a vice president of Hainan CCOOP Supply & Marketing Chain Network Technology Co., Ltd.* (海南供銷大集供銷鏈網絡科技有限公司) between October 2017 and June 2018; a general manager assistant of the Financial Planning Department of CCOOP between April 2015 and October 2017; a manager of Cash Flow Segment of the Financial Management Centre of HNA Holding Group Co., Ltd.* (海航實業集團有限公司) between October 2014 and April 2015; and a manager of Cash Flow Management Centre of Financial Planning Department of E-Food Group Co., Ltd.* (易食集團股份有限公司) between February 2014 and October 2014.

Mr. Zhao graduated from Henan University of Economics and Law (河南財經政法大學) with a bachelor's degree in economics in 2011, and is currently studying for an Executive Master of Business Administration at the University of Hong Kong. Mr. Zhao obtained the Intermediate Accounting Professional Qualification in China in 2017.

COMPANY SECRETARY

Mr. Qiu Minghao ("Mr. Qiu"), aged 43, was appointed as Company Secretary of the Company on 31 October 2019. He is an associate of both The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) and The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries). He has more than thirteen years of experience in handling company secretarial and compliance related matters to Hong Kong listed companies. Mr. Qiu received a Bachelor's degree of Administrative Studies with Honours in accounting from York University in Canada in 2005.

* For identification purpose only

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board (the “Board”) of directors (the “Directors”) of China Shun Ke Long Holdings Limited (the “Company”, with its subsidiaries, collectively, the “Group”) is committed to achieving high corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework to safeguard the interests of shareholders of the Company (the “Shareholders”), to enhance corporate value and accountability, and to formulate its business strategies and policies for the development of the Group.

The Company has adopted the principles and code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix C1 of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Non-compliance with Rules 3.10(1), 3.21, 3.25 and 3.27A of the Listing Rules

Following the resignation of Mr. Wang Yilin as an independent non-executive Director on 26 October 2023, the Company is not in compliance with (i) Rule 3.10(1) of the Listing Rules, which stipulates that the Board must include at least three independent non-executive directors; (ii) Rule 3.21 of the Listing Rules, which stipulates that the audit committee must comprise a minimum of three members; (iii) Rule 3.25 of the Listing Rules, which stipulates that the remuneration committee must be chaired by an independent non-executive director and comprise a majority of independent non-executive directors; and (iv) Rule 3.27A of the Listing Rules, which stipulates that the nomination committee must comprise a majority of independent non-executive directors.

To identify suitable candidate(s) to fill the vacancy and comply with the Listing Rules requirements, the Company had actively sought referrals of potential candidates from its Board, senior management, CCOOP Group Co., Ltd (“CCOOP”) (the controlling shareholder of the Company) and Hainan HNA No.2 Trust Management Service Co., Ltd. (the then controlling shareholder of CCOOP). In addition, the Company broadened its search channels, including but not limited to various industrial associations, other regions within the People’s Republic of China, and individuals with diverse backgrounds and talents.

Following the appointment of Mr. Gao Jingyuan as an independent non-executive Director on 27 March 2024, the number of independent non-executive Directors had satisfied the minimum number required under Rule 3.10(1) of the Listing Rules. The Company also met the requirements set out in Rules 3.21, 3.25 and 3.27A of the Listing Rules with regard to the composition of the audit committee, the remuneration committee and the nomination committee.

Save as those mentioned above and in the opinion of the Directors, the Company has met all the code provisions set out in the CG Code throughout the year ended 31 December 2023.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix C3 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code for the year ended 31 December 2023 and they all confirmed that they have fully complied with the required standards as set out in the Model Code.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Directors during the year ended 31 December 2023 and up to the date of this annual report were as follows:

Executive Directors

Mr. Shang Duoxu (*Chairman*)

Mr. Han Wei (*Chief Executive Officer*)

Non-Executive Director

Ms. Wang Hui

Independent Non-Executive Directors

Mr. Cheng Hok Kai Frederick

Mr. Wang Yilin (*resigned on 26 October 2023*)

Mr. Zou Pingxue (*retired on 6 June 2023*)

Mr. Ma Ren (*appointed on 6 June 2023*)

Mr. Gao Jingyuan (*appointed on 27 March 2024*)

An updated list of the Directors identifying their roles and functions is maintained on the websites of the Company and the Hong Kong Exchanges and Clearing Limited (the “HKEx”). Independent non-executive Directors are identified as such in all corporate communications containing the name of the Directors.

None of the members of the Board has any relationship with one another (including financial, business, family or other material/relevant relationship(s)).

Mr. Gao Jingyuan has obtained legal advice in accordance with Rule 3.09D on 21 March 2024 and has confirmed that he understood his obligations as a director of the Company.

BOARD DIVERSITY

The Company adopted a board diversity policy (the “Board Diversity Policy”). The Company recognised the benefits of having a diverse Board to enhance the quality of its performance. The Board Diversity Policy aimed to set out the approach to achieve diversity on the Board. In designing the Board’s composition, Board diversity has been considered from a number of measurable aspects including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services, all of which the Company considers to be important to enhance the quality of its performance. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Board.

The Board consists of a diverse mix of Board members in terms of age, gender and tenure of office. Currently, the Board has one female Director out of six Directors, and the Directors come from a variety of different backgrounds and have a diverse range of business, financial services and professional experience. The Company is committed to improving the diversity of the Board based on its needs and as and when suitable candidates are identified. The Directors’ biographical information is set out on “Directors and Senior Management” section of this annual report.

CORPORATE GOVERNANCE REPORT

The Board believes that the balance between executive and non-executive Directors (including independent non-executive Directors) is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of the shareholders and the Group. Non-executive Director and independent non-executive Directors provide the Group with diversified expertise and experience. Their views and participation in Board and committee meetings bring independent judgment and advice on issues relating to the Group's strategies, performance, conflicts of interest and management process, and ensure that the interests of the shareholders are taken into account.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The nomination committee of the Company will monitor the implementation of the Board Diversity Policy and recommend any proposed changes to the Board for approval. The nomination committee will from time to time review the Board Diversity Policy as appropriate to ensure its effectiveness.

As at 31 December 2023, around 72% of the Group's workforce (including senior management) was female. The Group treats employees of different nationalities, races, ages, genders, religious beliefs, and cultural backgrounds fairly and equitably and protects the legitimate rights and interests of female employees. More information regarding the gender ratio and other information about the Group's workforce, and the Group's plan for achieving diversity will be included in the Company's Environmental, Social and Governance Report which will be provided by a stand-alone report on the websites of the Company and the HKEx.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman and the Chief Executive Officer to ensure a balance of power and authority. The positions of Chairman and Chief Executive Officer are held by Mr. Shang Duoxu and Mr. Han Wei respectively. Their respective responsibilities are clearly defined and set out in writing. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board.

BOARD MEETINGS

The Board meets regularly, and at least four times a year. For regular Board meetings, the Directors receive written notice of the meeting generally about 14 days in advance. For other meetings, the Directors are given as much notice as is reasonable and practicable in the circumstances. All the Directors have full and timely access to all the information of the Group as well as the services and advice from the company secretary and senior management of the Company. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company and they are at liberty to propose appropriate matters for inclusion in Board agendas. Pursuant to the Articles of Association of the Company, the Directors may participate in Board meetings in person, by phone or by other communication means.

Should a potential conflict of interest involving a substantial shareholder or a Director arise, the matter will be dealt with by a physical meeting rather than by written resolution. Pursuant to the Articles of Association of the Company, a Director who is considered to be materially interested in the matter shall abstain from voting on the resolution approving such matter.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2023, the Board held six meetings. The attendance record of individual Director is set out below. Figure in brackets indicates the total number of meeting held in the period in which the individual was a Director.

Directors	Attendance
Executive Directors	
Mr. Shang Duoxu (<i>Chairman</i>)	6/(6)
Mr. Han Wei (<i>Chief Executive Officer</i>)	6/(6)
Non-executive Director	
Ms. Wang Hui	6/(6)
Independent Non-executive Directors	
Mr. Cheng Hok Kai Frederick	6/(6)
Mr. Ma Ren (<i>appointed on 6 June 2023</i>)	3/(3)
Mr. Gao Jingyuan (<i>appointed on 27 March 2024</i>)	N/A
Former Directors	
Mr. Wang Yilin (<i>resigned on 26 October 2023</i>)	5/(5)
Mr. Zou Pingxue (<i>retired on 6 June 2023</i>)	2/(2)

Draft and final versions of minutes of each Board meeting are sent to all Directors for their comments and records respectively within a reasonable time. The Company also keeps detailed minutes of each Board meeting, which are available for inspection by all Directors.

DIRECTORS' AND OFFICERS' LIABILITIES INSURANCE

The Company has arranged appropriate directors' and officers' liability insurance in respect of possible legal actions taken against the Directors and officers of the Group arising out the corporate activities.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company and oversees the Group's business, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board takes decisions objectively in the interests of the Company.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

CORPORATE GOVERNANCE REPORT

The Board has not established a corporate governance committee. To comply with the requirements under the CG Code, the Board is also responsible for performing the corporate governance duties. During the year ended 31 December 2023, the Board has performed the corporate governance duties set out in A.2.1 of the CG Code, including but not limited to reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

The Directors shall keep abreast of responsibilities as director of the Company and of the conduct, business activities and development of the Group.

Every newly appointed director will receive formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Group and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

In accordance with C.1.4 of the CG Code with regard to continuous professional development, Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. All Directors and senior management are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2023, the key methods of attaining continuous professional development by each of the Directors are summarized as follows:

Directors	Attending conferences/ courses/seminars	Reading articles/ books/journals
Mr. Shang Duoxu (<i>Chairman</i>)	✓	✓
Mr. Han Wei (<i>Chief Executive Officer</i>)	✓	✓
Ms. Wang Hui	✓	✓
Mr. Cheng Hok Kai Frederick	✓	✓
Mr. Ma Ren	✓	✓
Mr. Gao Jingyuan (<i>appointed on 27 March 2024</i>)	N/A	N/A
Former Directors		
Mr. Zou Pingxue (<i>retired on 6 June 2023</i>)		✓
Mr. Wang Yilin (<i>resigned on 26 October 2023</i>)		✓

NON-EXECUTIVE DIRECTORS

As at the date of this annual report, each of the Directors entered into a service agreement or letter of appointment for a term of three years. All Directors of the Company are subject to retirement by rotation once every three years, and any new director appointed by the Board to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by the Shareholders at the first annual general meeting after appointment pursuant to the Articles of Association of the Company.

The Company has received all independent non-executive Directors' confirmation of independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that they are independent. None of them has served the Company for more than nine years.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established three director committees, namely, the audit committee (the “Audit Committee”), remuneration committee (the “Remuneration Committee”) and nomination committee (the “Nomination Committee”) for overseeing particular aspects of the Company’s affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company’s website and the HKEx’s website and are available to the Shareholders upon request. Each of the committees is provided with sufficient resources to perform its duties.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules. As at the date of this annual report, the Audit Committee comprises three members, namely Mr. Cheng Hok Kai Frederick (Chairman), Mr. Ma Ren and Mr. Gao Jingyuan. They are all independent non-executive Directors.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control procedures and risk management systems of the Group; to oversee the audit process and the relationship with external auditor; to review arrangements enabling employees of the Group to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company; and to perform other duties and responsibilities as assigned by our Board.

During the year ended 31 December 2023, the Audit Committee reviewed the interim and annual results of the Group, and discussed and approved the relevant financial reports. It also reviewed and discussed the risk management and internal control systems of the Group. It also considered the appointment of the external auditors and discussed with external auditors the nature and scope of audit before any audit commences.

The Audit Committee held three meetings during the year ended 31 December 2023. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Audit Committee.

Members	Attendance
Mr. Cheng Hok Kai Frederick (<i>Chairman</i>)	3/(3)
Mr. Ma Ren (<i>appointed on 6 June 2023</i>)	1/(1)
Mr. Gao Jingyuan (<i>appointed on 27 March 2024</i>)	N/A
Former committee member	
Mr. Wang Yilin (<i>resigned on 26 October 2023</i>)	3/(3)
Mr. Zou Pingxue (<i>retired on 6 June 2023</i>)	2/(2)

Remuneration Committee

The Company has established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules. As at the date of this annual report, the Remuneration Committee comprises three members, namely Mr. Gao Jingyuan (Chairman), Mr. Shang Duoxu and Mr. Ma Ren. Mr. Shang Duoxu is the Chairman of the Board and an executive Director, while Mr. Gao Jingyuan and Mr. Ma Ren are independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration; to make recommendations to the Board on the remuneration packages of executive Directors and senior management; and to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the year ended 31 December 2023, the Remuneration Committee has reviewed the remuneration policy and remuneration of executive Directors, and assessed performance of executive Directors.

During the year ended 31 December 2023, three Remuneration Committee meetings were held. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Remuneration Committee.

Members	Attendance
Mr. Gao Jingyuan (<i>Chairman</i>) (<i>appointed on 27 March 2024</i>)	N/A
Mr. Shang Duoxu	3/(3)
Mr. Ma Ren (<i>appointed on 6 June 2023</i>)	1/(1)
Former committee member	
Mr. Wang Yilin (<i>resigned on 26 October 2023</i>)	3/(3)
Mr. Zou Pingxue (<i>retired on 6 June 2023</i>)	1/(1)

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with Rule 3.27A of the Listing Rules. As at the date of this annual report, the Nomination Committee has three members, namely Mr. Shang Duoxu (Chairman), Mr. Ma Ren and Mr. Gao Jingyuan. Mr. Shang Duoxu is the Chairman of the Board and an executive Director, while Mr. Ma Ren and Mr. Gao Jingyuan are independent non-executive Directors.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to complement the issuer's corporate strategy, to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, and to assess the independence of independent non-executive Directors.

The Board has adopted a nomination policy (the "Nomination Policy") which sets out the transparent and formal selection criteria and procedure of appointing a Director. The selection criteria used in assessing the suitability of a candidate include, inter alia, such candidate's academic background and professional qualifications, relevant experience in the industry, availability, independence etc. When it is necessary to fill a casual vacancy or appoint an additional director, the nomination committee identifies or selects candidates pursuant to the criteria set out in the Nomination Policy. Based upon the recommendation of the Nomination Committee, the Board deliberates and decides on the appointment.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2023, the Nomination Committee reviewed the structure, composition and diversity of the Board of the Company; assessed the independence of the independent non-executive Directors; and recommended the Directors to be re-elected at the 2023 annual general meeting and new Directors before putting forth for discussion and approval by the Board.

During the year ended 31 December 2023, two Nomination Committee meetings were held. The attendance record of individual members is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a member of the Nomination Committee.

Members	Attendance
Mr. Shang Duoxu (<i>Chairman</i>)	2/(2)
Mr. Ma Ren (<i>appointed on 6 June 2023</i>)	N/A
Mr. Gao Jingyuan (<i>appointed on 27 March 2024</i>)	N/A
Former committee member	
Mr. Wang Yilin (<i>resigned on 26 October 2023</i>)	2/(2)
Mr. Zou Pingxue (<i>retired on 6 June 2023</i>)	1/(1)

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group for each financial period and confirmed that the consolidated financial statements contained herein give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of the consolidated financial performance and the consolidated cash flow of the Group for the year ended 31 December 2023.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis.

Statement of the external auditor's responsibilities in respect of the consolidated financial statements is set out in "Independent Auditor's Report" of this annual report.

AUDITORS' REMUNERATION

The Company appointed SHINEWING (HK) CPA Limited as the external auditors for the year ended 31 December 2023. During the year ended 31 December 2023, the total fees paid/payable, excluding disbursements and taxes, in respect of audit and non-audit services provided by SHINEWING (HK) CPA Limited (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) are set out below:

	RMB'000
Annual audit fee charged by SHINEWING (HK) CPA Limited	1,000
Interim review fee charged by SHINEWING (HK) CPA Limited	100

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS AND RISK MANAGEMENT

The Group strives to maintain the integrity of its business, results of operations and reputation by strictly adhering to an effective internal control and risk management systems in respect of its business. The Group has therefore implemented internal control procedures and manuals covering a number of key control areas such as tendering, purchase and procurement management, financial management, Human Resources and Payroll management, fixed asset management and safety and environment compliance management with a view to ensuring compliance by the Group with applicable laws, rules and regulations. The Board acknowledges that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, through the Audit Committee, is responsible for overseeing and monitoring the key measures adopted by the Group under the risk management and internal control systems relating to the business operations of the Company and assess the effectiveness annually. Review on the risk management and internal control systems relating to the Group's business operations has been conducted for the year ended 31 December 2023.

For the year ended 31 December 2023, the Company did not have an internal audit function. The Company engaged an independent consultant to perform a review on the internal control and the risk management systems. The Board considers that it is more cost and result-effective to engage an external independent consultant instead of establishing an internal audit team. The results of the review were reported to the Audit Committee and measures and procedures were seriously considered by the Audit Committee after taking into account of the findings and recommendations of the independent consultant.

The Company has a policy on inside information in place setting out the principles and procedures for handling and disclosing inside information of the Group in compliance with the relevant requirements under Part XIVA of the Securities and Futures Ordinance and the Listing Rules, and such policy has been communicated to the relevant senior executives of the Group. To prevent inadvertent disclosure of inside information, the policy also prescribes certain measures in place, including restricting access to inside information to employees on a need-to-know basis, requiring documents and files containing inside information to be kept in a safe place, and requiring that confidentiality agreements be made with external parties in appropriate cases.

The Company has adopted an Anti-Corruption and Bribery Policy since 2022 which provides guidance to our employees on how to recognize and deal with bribery and corruption. Every employee has a duty to report any potential violations of the policy to the Company through the channels set out therein. The Company also established a whistleblowing policy in 2022 for our employees to raise concerns in confidence about suspected misconducts, malpractices or fraudulent activities relating to the Group. The identity of the whistleblower will be treated with the strictest confidence.

Based on the above, for the year ended 31 December 2023, the Board considered the Group's risk management and internal control systems as adequate and effective.

COMPANY SECRETARY

The Board appointed Mr. Qiu Minghao as the Company Secretary on 31 October 2019. During the year ended 31 December 2023, Mr. Qiu Minghao had taken no less than 15 hours of relevant professional training.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Pursuant to Article 58 of the Articles of Association of the Company, any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company, on a one vote per share basis, shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting (the "EGM") to be called by the Board for the transaction of any business specified in such requisition; such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (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.

The written requisition shall be deposited at the principal place of business of the Company in Hong Kong at Suite 4404-10, 44th Floor, One Island East, 18 Westlands Road, Taikoo Place, Hong Kong, or in the event the Company ceases to have such place of business, the registered office of the Company at Vistra (Cayman) Limited, P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands. The requisition must state clearly the name of the requisitionist(s), his/her/their shareholding in the Company, the reason(s) to convene the EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the EGM and signed by the requisitionist(s).

The Shareholders may at any time send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong at Suite 4404-10, 44th Floor, One Island East, 18 Westlands Road, Taikoo Place, Hong Kong by post or by email at ir@skl.com.cn for the attention of the Company Secretary of the Company. The Company Secretary will be responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and enquiries, to the Chief Executive Officer of the Company. The Shareholders may also raise their enquiries in general meetings.

COMMUNICATION WITH SHAREHOLDERS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company has established an Shareholder Communication Policy (the "Shareholder Communication Policy"). According to the Shareholder Communication Policy, information would be communicated to the Shareholders mainly through the Company's corporate communications (such as interim and annual reports, announcements and circulars), annual general meetings and other general meetings, as well as disclosure on the website of the Company. Interim reports, annual reports and circulars are sent or mailed to the Shareholders in a timely manner and are also available on the website of the Company. Moreover, the Company Designated a dedicated mailbox (ir@skl.com.cn) for receiving shareholder correspondence.

The Company endeavours to maintain an on-going dialogue with the Shareholders and in particular, through annual general meeting (the "AGM") and other general meeting. At the AGM, the Directors (or their delegates as appropriate) are available to meet the Shareholders and answer their enquiries. The chairman of the AGM proposes separate resolutions for each issue to be considered. AGM proceedings are reviewed from time to time to ensure that the Company follows good corporate governance practices. The chairman of the AGM exercises his power under the Articles of Association of the Company to put each proposed resolution to the vote by way of a poll. Voting results are posted on the Company's website and HKEx's website on the day of the AGM.

CORPORATE GOVERNANCE REPORT

The Company implemented the Shareholder Communication Policy effectively during the year ended 31 December 2023. During the year ended 31 December 2023, the Company held one general meeting. The attendance record of individual Directors is set out below. Figure in brackets indicates the total number of meetings held in the period in which the individual was a Director of the Company.

Directors	Attendance
Executive Directors	
Mr. Shang Duoxu (<i>Chairman of the Board</i>)	1/(1)
Mr. Han Wei	1/(1)
Non-executive Director	
Ms. Wang Hui	1/(1)
Independent Non-executive Directors	
Mr. Cheng Hok Kai Frederick	1/(1)
Mr. Ma Ren (<i>appointed on 6 June 2023</i>)	N/A
Mr. Gao Jingyuan (<i>appointed on 27 March 2024</i>)	N/A
Former Directors	
Mr. Wang Yilin (<i>resigned on 26 October 2023</i>)	1/(1)
Mr. Zou Pingxue (<i>retired on 6 June 2023</i>)	1/(1)

CONSTITUTIONAL DOCUMENT

The Company has adopted the Amended and Restated Articles of Association of the Company at the annual general meeting of the Company held on 6 June 2023. An up-to-date version of the Memorandum and Articles of Association is available on the Company's website and the HKEx's website.

DIRECTORS' REPORT

The board (the “Board”) of the China Shun Ke Long Holdings Limited (the “Company”) is pleased to present this directors' report along with the audited consolidated financial statements (the “Financial Statements”) of the Company for the year ended 31 December 2023 (“FY2023”).

DIRECTORS

The directors of the Company (the “Directors”) during the year ended 31 December 2023 and up to the date of this annual report were as follows:

Executive Directors

Mr. Shang Duoxu (*Chairman*)

Mr. Han Wei (*Chief Executive Officer*)

Non-Executive Directors

Ms. Wang Hui

Independent Non-Executive Directors

Mr. Cheng Hok Kai Frederick

Mr. Wang Yilin (*resigned on 26 October 2023*)

Mr. Zou Pingxue (*retired on 6 June 2023*)

Mr. Ma Ren (*appointed on 6 June 2023*)

Mr. Gao Jingyuan (*appointed on 27 March 2024*)

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Company and its subsidiaries (the “Group”) is a supermarket chain store operator with geographical focus in Guangdong province of the People's Republic of China (the “PRC”) and maintains both retail and wholesale distribution channels.

BUSINESS REVIEW

A fair business review of the Group as required under Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a discussion and analysis of the Group's performance during the year ended 31 December 2023, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred after 31 December 2023 (if any) as well as an indication of likely future development in the business of the Group are provided in the sections “Chairman's Statement” and “Management Discussion and Analysis” on pages 4 to 6 of this annual report. Discussions on the Group's environmental policies and performance, and an account of the Group's key relationships with its stakeholders are provided in the “Environmental, Social and Governance Report”, which will be provided by a stand-alone report on the websites of the Company and the Hong Kong Exchanges and Clearing Limited (“HKEx”).

DIRECTORS' REPORT

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss and other comprehensive income on page 50 of this annual report.

The Company has adopted a dividend policy (the "Dividend Policy"), pursuant to which, the Board considers the following factors to decide whether to announce a dividend, including but not limited to:

- the general financial performance of the Group;
- availability of sufficient retained earnings and distributable reserves of the Company and each of the members of the Group;
- the Company's shareholders' interests as a whole;
- the actual and future operations and liquidity positions of the Group;
- the Group's expected working capital requirements, capital expenditure requirements, investment plans and business expansion plans;
- the Group's financing requirements;
- legal and other restrictions on the payment of dividends by the Company;
- possible financial effects on the Company's cashflow and financial condition;
- statutory, regulatory and contractual restrictions on the Company and its subsidiaries;
- the general market conditions, business cycle of the Group's business and other internal and external factors that may have an impact on the business or financial performance and position of the Company; and
- Any other factor that the Board deems appropriate and relevant.

The Board has resolved not to declare any final dividend for the year ended 31 December 2023.

FINANCIAL SUMMARY

A summary of the results and assets and liabilities of the Group for the most recent five years is set out in the section headed "Financial Summary" on page 3 of this annual report.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in property, plant and equipment and investment properties of the Group during the year ended 31 December 2023 are set out in notes 13 and 15 to the Financial Statements of this annual report.

SHARE CAPITAL

Details of the Company's authorised and issued share capital as at 31 December 2023 are set out in note 26 to the Financial Statements of this annual report.

DIRECTORS' REPORT

RESERVES

Movements in the reserves of the Group for the year ended 31 December 2023 are set out in the consolidated statement of changes in equity on page 53 of this annual report.

LISTING

The shares of the Company (the "Shares") were successfully listed (the "Listing") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 September 2015 (the "Listing Date") through an offering of Shares (the "Global Offering"). For the details of the Global Offering, please refer to the prospectus issued by the Company (the "Prospectus") on 28 August 2015. In the Global Offering, 75,600,000 Shares were issued at HK\$2.88 each and the total gross proceeds received amounted to approximately HK\$217.7 million (equivalent to approximately RMB178.9 million).

USE OF PROCEEDS

The net proceeds from the Global Offering, after deducting underwriting fees and related expenses, amounted to approximately HK\$188.6 million (equivalent to approximately RMB155.0 million), was intended to be applied in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

Nonetheless, the Board constantly evaluates the prospect of the retail market and the PRC's economic conditions to determine the most efficient and effective method to deploy the Group's resources. With reference to the announcement issued by the Company dated 24 October 2016, the Board considered that if the net proceeds were still allocated as the original manner as stipulated in the Prospectus, it would not be cost effective and at the best interests of the Company and its shareholders (the "Shareholders"). In view of the recent slowdown in economic growth in the PRC, the Company has been slowing down the pace of opening new retail outlets and thus freeing up proceeds originally intended to be used for such purpose. With a view to better use the net proceeds from the Global Offering, the Company has decided to re-allocate parts of the unutilized proceeds to upgrade the existing retail outlets to enhance the Group's competitiveness as one of the major market players in Guangdong province and repay the bank borrowings to reduce the Group's finance costs in the manner as stated below.

	Original allocation of net proceeds		Revised allocation of the net proceeds		Utilization as at 31 December 2023		Remaining balance of net proceeds as at 31 December 2023	
	RMB million	% of net proceeds	RMB million	% of net proceeds	RMB million	% of net proceeds	RMB million	% of net proceeds
Opening of new retail outlets	116.9	75.4%	74.4	48.0%	74.4	48.0%	–	0%
Upgrading existing retail outlets	–	0.0%	14.6	9.4%	14.6	9.4%	–	0%
Repayment of bank borrowings	–	0.0%	27.9	18.0%	27.9	18.0%	–	0%
Information systems upgrades	11.2	7.2%	11.2	7.2%	11.2	7.2%	–	0%
Upgrading and expanding the existing two distribution centres	13.3	8.6%	13.3	8.6%	0.8	0.5%	12.5	8.1%
General working capital	13.6	8.8%	13.6	8.8%	13.6	8.8%	–	0%
Total	<u>155.0</u>	<u>100.0%</u>	<u>155.0</u>	<u>100.0%</u>	<u>142.5</u>	<u>91.9%</u>	<u>12.5</u>	<u>8.1%</u>

DIRECTORS' REPORT

COMPETING BUSINESS

CCOOP Group Co. Limited* (“CCOOP”) (供銷大集集團股份有限公司), the controlling shareholder of the Company (as defined in the Rules Governing the Listing of Securities on The Stock Exchange (the “Listing Rules”), is principally engaged in the retail chain and department store businesses in the PRC and hence was interested in the businesses which competed or were likely to compete, either directly or indirectly, with the Group’s businesses during the year ended 31 December 2023. Mr. Shang Duoxu (“Mr. Shang”) and Mr. Han Wei (“Mr. Han”) are executive Directors of the Company, and Ms. Wang Hui (“Ms. Wang”) is non-executive Director of the Company currently. Mr. Shang, Mr. Han and Ms. Wang are directors or supervisor of CCOOP. Pursuant to Rule 8.10(2) of the Listing Rules, all of them are considered to have interest in the business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

The Directors are fully aware of, and have been discharging, their fiduciary duty to the Company with the belief that the Group’s interests are adequately protected by good corporate governance practices and the involvement of the independent non-executive Directors.

Save as disclosed above, as at the date of this report, none of the Directors and their respective close associates were considered to have interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the share option scheme of the Company (the “Share Option Scheme”) conditionally adopted by the resolutions in writing of the Shareholders passed on 19 August 2015. All conditions, to which the Share Option Scheme was subject to, had been fulfilled on or before the Listing Date. The maximum number of shares in respect of which options may be granted under the Share Option Scheme was 28,647,700 Shares (or approximately 9.86% of the issued Shares as at the date of this annual report) as at the beginning and end of FY2023. As at the date of this annual report, no option has been granted under the Share Option Scheme and the Company does not have any other share option scheme.

1 Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph 2 below) had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

2 Eligible Participants

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph 8 below to the following (the “Eligible Participants”):

- (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;
- (ii) any directors (including executive, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers, agents and related entities to the Company or any of its subsidiaries.

DIRECTORS' REPORT

3 Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares immediately following the completion of Global Offering (excluding the Shares issued upon the partial exercise of the over-allotment option relating to the Global Offering), being 28,647,700 Shares (or approximately 9.86% of the issued Shares as at the date of this annual report). Subject to the issue of a circular by the Company, the approval of the Shareholders in a general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. As at the date of this annual report, the Company does not have any other share option scheme.

4 Maximum entitlement

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 schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to the issue of a circular by the Company, the approval of the Shareholders in a general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting.

Any grant of options to a Director, chief executive or substantial Shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the Independent Non-Executive Directors (excluding any Independent Non-Executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial Shareholder or any Independent Non-Executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon the exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant, such further grant of options will be subject to the issue of a circular by the Company and the approval of the Shareholders in a general meeting on a poll at which all core connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

DIRECTORS' REPORT

5 Exercisable Period

The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

6 Vesting Period

There is no minimum period for which an option must be held before it can be exercised.

7 Consideration

Upon acceptance of the option, the grantee shall pay HK\$1.0 to the Company as the consideration for the grant. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

8 Exercise Price

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

9 Life Span

No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

CONTINUING CONNECTED TRANSACTIONS

Non-exempt continuing connected transactions

On 12 November 2020, the Company (for itself and on behalf of its subsidiaries) entered into a sale of goods agreement (the "Sale of Goods (2021) Agreement") with CCOOP (for itself and on behalf of its subsidiaries) for a term of three years from 1 January 2021. The Sale of Goods (2021) Agreement serves as a framework to govern the sale of SKL Goods (as defined below) from the Group to CCOOP and its subsidiaries (the "CCOOP Group"), and sets out the principles and basis in particular with respect to the pricing on which the sale of SKL Goods may be conducted.

DIRECTORS' REPORT

On the same day, the Company also entered a purchase of goods agreement (the "Purchase of Goods (2021) Agreement") with CCOOP (for itself and on behalf of its subsidiaries) for a term of three years from 1 January 2021. The Purchase of Goods (2021) Agreement serves as a framework to govern the purchase of CCOOP Goods (as defined below) by the Group from CCOOP Group, and sets out the principles and basis in particular with respect to the pricing on which the purchase of CCOOP Goods may be conducted.

CCOOP is a controlling shareholder indirectly holding approximately 70.42% of the issued shares of the Company through CCOOP International Holdings Limited. Therefore, CCOOP is a connected person of the Company, and the transactions (the "Transactions") contemplated under the Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement (the "Agreements") constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Agreements, the Transactions and the proposed annual caps under each of the Agreements are subject to the announcement, circular, independent shareholders' approval, annual review and reporting requirements in Chapter 14A of the Listing Rules. Details of the Sale of Goods (2021) Agreement and the Purchase of Goods (2021) Agreement were disclosed in the announcement and the circular of the Company dated 12 November 2020 and 4 December 2020, respectively. The Agreements, the Transactions and the proposed annual caps under each of the Agreements had been duly passed by way of poll at the extraordinary general meeting of the Company held on 23 December 2020.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules and save as disclosed above, there were no other transactions which need to be disclosed as continuing connected transactions in accordance with the requirements of the Listing Rules.

Sales of goods

Pursuant to the Sale of Goods (2021) Agreement, the Group may sell all goods sold or to be sold by the Group to the CCOOP Group, including but not limited to non-staple foods, fresh food, daily consuming products, cosmetics, clothing, home appliances, but excluding any goods to be purchased or contracted to be purchased under the Purchase of Goods (2021) Agreement (the "SKL Goods"). The sale of SKL Goods are within the ordinary course of business of the Group.

The price of SKL Goods will be determined after arm's length negotiation on a cost plus basis and case-by-case basis. The percentage markup will be determined by a number of factors including (i) the price set for SKL Goods in previous transactions; (ii) the then prevailing market prices of SKL Goods and of similar products; and (iii) the discount offered by the Group to other third party wholesaling customers. The percentage markup of the cost-plus basis is usually in the range of 2% to 5% for wholesale of products similar to SKL Goods. The price of SKL Goods offered to CCOOP Group should be not less than the price offered to other third party customers ordering similar quantity and product mix of SKL Goods on similar conditions such as credit terms and delivery requirements.

The annual caps for the three years ending 31 December 2023 under the Sale of Goods (2021) Agreement are RMB60 million, RMB80 million and RMB100 million respectively. They were determined by reference to various factors, including but not limited to, (i) the quantity demanded by CCOOP Group for SKL Goods as estimated by CCOOP Group on a without-commitment basis; (ii) the historical transaction amounts under the Goods Sales Agreement; (iii) the growth in demand of SKL Goods following the Group's expansion plan to expand the Group's sales channel geographically across the PRC; (iv) the costs of SKL Goods and the cost-plus basis adopted by the Group; and (v) the expected market prices of SKL Goods.

The total amount in respect of the transactions under the Sale of Goods (2021) Agreement for the FY2023 is set out in notes 23 and 29 to the Financial Statements of this annual report.

DIRECTORS' REPORT

Purchase of goods

Pursuant to the Purchase of Goods (2021) Agreement, the Group may purchase all goods sold or to be sold by CCOOP Group, including but not limited to non-staple foods, fresh food, daily consuming products, cosmetics, clothing, home appliances, but excluding any goods to be sold or contracted to be sold under the Sale of Goods (2021) Agreement (the "CCOOP Goods"). The purchase of CCOOP Goods are within the ordinary course of business of the Group.

The price of CCOOP Goods will be determined after arm's length negotiation on a case-by-case basis, with reference to (i) the prevailing and historical market price of CCOOP Goods; (ii) the then prevailing market prices of similar products; and (iii) the discounts offered by CCOOP Group to other third parties customers for wholesaling. The price of CCOOP Goods should not be higher than the price offered by other third party suppliers to the Group for CCOOP products with similar quantity and product mix on similar terms.

The annual caps for the three years ending 31 December 2023 under the Purchase of Goods (2021) Agreement are RMB20 million, RMB40 million and RMB60 million respectively. They were determined by reference to various factors, including but not limited to, (i) the types and quantities of CCOOP Goods that may be demanded by the customers of the Group; (ii) the historical transaction amounts; (iii) the Group's expansion plan to expand the Group's sales channel into online sales platform; (iv) the Group's expansion plan to source products across the PRC; (v) the current price of CCOOP Goods; and (vi) the buffer for possible increase in the price of CCOOP Goods.

The total amount in respect of the transactions under the Purchase of Goods (2021) Agreement for the FY2023 is set out in notes 23 and 29 to the Financial Statements of this annual report.

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken by the Group in the normal course of business are set out in notes 23 and 29 to the Financial Statements of this annual report. Those related party transactions, which constituted connected transactions not being exempt from annual reporting requirement under the Listing Rules, are set out in the section headed "Continuing Connected Transactions" above.

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

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

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a confirmation of his independence pursuant to rule 3.13 of the Listing Rules. Based on such confirmations, the Company considers all of the independent non-executive Directors are independent in accordance with rule 3.13 of the Listing Rules.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at the 31 December 2023, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix C3 to the Listing Rules were as follows:

Long positions in the ordinary shares of the associated corporations

Name of Directors	Name of associated corporation(s)	Capacity/ Nature of interests	Number of shares held	Approximate percentage of the total number of issued shares of the associated corporation(s)
Mr. Shang Duoxu	CCOOP Group Co., Ltd* (Note)	Beneficial owner	243,000	0.00%
Mr. Han Wei	CCOOP Group Co., Ltd* (Note)	Beneficial owner	248,087	0.00%
Ms. Wang Hui	CCOOP Group Co., Ltd* (Note)	Beneficial owner	215,812	0.00%

Note: CCOOP Group Co., Ltd is an indirect controlling shareholder holding approximately 70.42% of the issued shares of the Company.

Save as the above, as at 31 December 2023, none of the Directors and the chief executive of the Company nor their respective associates had any interests or short positions in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix C3 to the Listing Rules.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2023, so far as was known to the Directors of the Company, the interests or short position of persons, other than the Directors or the chief executive of the Company, in the Shares and underlying shares of the Company which would be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Substantial Shareholders	Capacity	Number of Shares (long position)	Approximate percentage of shareholding
Everbright Xinglong Trust Co., Ltd.* (光大興隴信託有限責任公司) (Note 1)	Trustee	204,558,317 (Note 5)	70.42%
CITIC Trust Corporation Ltd.* (中信信託有限責任公司) (Note 1)	Trustee	204,558,317 (Note 5)	70.42%
HNA Group Bankruptcy Reorganisation Specialised Service Trust* (海航集團破產重整專項服務信託) (Note 2)	Interest of a controlled corporation	204,558,317 (Note 5)	70.42%
Hainan HNA No. 2 Trust Management Service Co., Ltd.* (海南海航二號信管服務有限公司) (Note 3)	Interest of a controlled corporation	204,558,317 (Note 5)	70.42%
CCOOP Group Co., Ltd.* (供銷大集團股份有限公司) (Note 3)	Interest of a controlled corporation	204,558,317 (Note 5)	70.42%
Hainan Gongxiao Daji Holding Ltd.* (海南供銷大集控股有限公司) (Note 4)	Interest of a controlled corporation	204,558,317 (Note 5)	70.42%
Hainan Gongxiao Daji Supply Chain Network Technology Ltd.* (海南供銷大集供銷鏈網絡科技有限公司) (Note 4)	Interest of a controlled corporation	204,558,317 (Note 5)	70.42%
Green Industrial (HK) Holding Co., Limited (綠色實業(香港)有限公司) (Note 4)	Interest of a controlled corporation	204,558,317 (Note 5)	70.42%
CCOOP International Holdings Limited (供銷大集國際控股有限公司) (Note 4)	Beneficial owner	204,558,317	70.42%
Infini Capital Management	Beneficial owner	27,600,000	9.50%

Notes:

- HNA Group Bankruptcy Reorganisation Specialised Service Trust ("Specialised Service Trust") is held by Everbright Xinglong Trust Co., Ltd. and CITIC Trust Corporation Ltd. as the trustees.
- Specialised Service Trust holds 100% equity interests in Hainan HNA No. 2 Trust Management Service Co., Ltd. ("HNA No. 2 Trust Management").
- HNA No. 2 Trust Management, through 11 wholly-owned subsidiaries, holds 14.67% equity interests in CCOOP Group Co., Ltd. ("CCOOP").
- CCOOP holds 100% equity interests in Hainan Gongxiao Daji Holding Ltd ("Hainan Gongxiao Daji Holding"), which in turn holds 100% equity interests in Hainan Gongxiao Daji Supply Chain Network Technology Ltd. ("Hainan Gongxiao Daji"). Hainan Gongxiao Daji holds 100% equity interests in Green Industrial (HK) Holding Co., Limited, which in turn holds 100% equity interests in CCOOP International Holdings Limited ("CCOOP International").
- These parties were deemed to have interests in 204,558,317 Shares by virtue of their equity interests in CCOOP International.

Shareholders are advised to refer the Company's announcements dated 4 January 2024, 19 January 2024, 6 March 2024, 18 March 2024, 22 March 2024 and 7 April 2024 and the Corporate Substantial Shareholder Notices (Forms 2) filed by Everbright Xinglong Trust Co., Ltd.* (光大興隴信託有限責任公司), CITIC Trust Corporation Ltd.* (中信信託有限責任公司), All China Federation of Supply and Marketing Cooperatives* (中華全國供銷合作總社) and Beijing Zhonghe Nongxin Enterprise Management Consulting Co., Ltd.* (北京中合農信企業管理諮詢有限公司) on 9 April 2024 for matters relating to the Company's changes of controlling shareholders and substantial shareholders after 31 December 2023.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

No Director has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 29 to the Financial Statements of this annual report headed "Related Party Transactions" and the section headed "Continuing Connected Transactions" above, the Group did not have any transaction, arrangement, or contract of significance subsisting as at 31 December 2023 or during the year ended 31 December 2023 in which a Director or an entity connected with a Director was, either directly or indirectly, materially interested.

DIRECTORS' RIGHTS IN ACQUIRING SHARES AND DEBENTURES

During the year ended 31 December 2023, the Company or any of its subsidiaries had no arrangements to enable the Directors or executives of the Company (including their spouse and children under 18 years of age) to have the rights to acquire securities of the Company or its associated companies (as defined in the SFO), or to acquire benefits by means of acquisition of securities of the Company or any other body corporate.

DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS AND REMUNERATION POLICY

Details of the Directors' remuneration and five highest paid individuals of the Group are set out in note 9 to the Financial Statements of this annual report.

The Remuneration Committee has reviewed overall remuneration policy and structure relating to all Directors and senior management members of the Group in reference to the Group's operating results and individual performance.

The Company also adopted a share option scheme on 19 August 2015. Details of which are set out in the section headed "Share Option Scheme" of this directors' report.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in note 29 to the Financial Statements of this annual report headed "Related Party Transactions" and the section "Continuing Connected Transactions" above, no contract of significance was entered into between the Company, or any of its subsidiaries, and any controlling shareholder or any its subsidiaries during the year ended 31 December 2023.

MANAGEMENT CONTRACTS

No contracts, other than a contract of service with a Director or any person engaged in the full-time employment of the Company, concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2023.

DIRECTORS' REPORT

PERMITTED INDEMNITY PROVISION

According to Article 164 of the articles of association of the Company, the Directors 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 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; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against the Directors and senior management arising out of corporate activities for the year ended 31 December 2023 and up to date of this annual report, and such permitted indemnity provision is currently in force.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or applicable laws of the Cayman Islands where the Company is incorporated.

TAX RELIEF

The Company is not aware of any tax relief available for the Shareholders by reason of their holding of the Shares.

EMOLUMENT POLICY

Employees of the Group are selected, remunerated and promoted on the basis of their merit, qualifications, competence and contribution to the Group. The Company also has adopted the Share Option Scheme as a long-term incentive scheme of the Group.

PROPERTY HELD

As at 31 December 2023, there was no property held for development and/or sale or for investment purpose for which the percentage ratios, as defined under Rule 14.04(9) of the Listing Rules, exceeded 5%.

DISTRIBUTABLE RESERVES

Pursuant to applicable statutory provisions of the Cayman Islands, the Company's reserves available for distribution to the Shareholders as at 31 December 2023 amounted to approximately RMB169.9 million.

AUDITOR

SHINEWING (HK) CPA Limited has been auditors of the Company since 29 December 2017. The financial statements for the year ended 31 December 2023 have been audited by SHINEWING (HK) CPA Limited. SHINEWING (HK) CPA Limited will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2023, the percentages of purchases from the Group's largest supplier and the five largest suppliers were 5.79% and 23.65% respectively. For the year ended 31 December 2023, the percentage of revenue attributable to the Group's largest customer and five largest customers were 5.63% and 11.49% respectively.

During the year ended 31 December 2023, none of the Directors or any of their close associates, or any Shareholders of the Company (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in any of the Group's five largest suppliers or customers.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 20 to 30 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 has maintained the prescribed public float under the Listing Rules for the year ended 31 December 2023 and up to the date of this annual report.

REVIEW BY THE AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed the accounting standards and practices adopted by the Group and discussed with the management about the internal control and financial reporting matters. The consolidated financial statements and final results of the Group for the year ended 31 December 2023 have been reviewed by the Audit Committee and have been audited by the Group's auditor, Messrs. SHINEWING (HK) CPA Limited. The Audit Committee is of the opinion that the financial statements complied with the applicable accounting standards and requirements, and that adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

On 3 January 2024, CCOOP Group Co., Ltd.* ("CCOOP"), the controlling shareholder of the Company, signed an investment agreement (the "Investment Agreement") with China Supply and Trade Group Co., Ltd* (中國供銷商貿流通集團有限公司) ("China Supply"), Beijing Zhong He Nong Xin Enterprises Management Limited* (北京中合農信企業管理諮詢有限公司) ("Zhong He Nong Xin") and Zhong He Lian Investments Limited* 中合聯投資有限公司 ("Zhong He Lian", collectively with China Supply and Zhong He Nong Xin, the "Industrial Investors"), pursuant to which, the Industrial Investors agreed to purchase 2.6 billion shares of CCOOP. On 2 April 2024, the registration procedures for the transfer of the 2.6 billion share of CCOOP have been completed at China Securities Depository and Clearing Co., Ltd Shenzhen Branch.

New Cooperation Trade Chain Group Co., Ltd.* (新合作商貿連鎖集團有限公司) ("New Cooperation") and each of the Industrial Investors are controlled by All China Federation of Supply and Marketing Cooperatives* (中華全國供銷合作總社) ("ACFSMC"). New Cooperation and the Industrial Investors are parties acting in concert. The Industrial Investors, New Cooperation and its parties acting in concert together currently hold 21.28% equity interest in CCOOP.

DIRECTORS' REPORT

As China Supply, Zhong He Lian and New Cooperation agreed to entrust their voting rights in the shares of CCOOP to Zhong He Nong Xin, Zhong He Nong Xin has been the controlling shareholder of CCOOP, and ACFSMC has been the actual controller of CCOOP since 2 April 2024. CCOOP is still the controlling shareholder of the Company holding approximately 70.42% of the total issued shares of the Company. Details are set out in the Company's announcements dated 4 January 2024, 19 January 2024, 6 March 2024, 18 March 2024, 22 March 2024 and 7 April 2024.

Saved as the these events after the Reporting Period, the Board is not aware of any significant events requiring disclosure that has taken place subsequent to 31 December 2023 and up to the date of this annual report.

By order of the Board

Shang Duoxu

Chairman and Executive Director

Hong Kong, 15 April 2024

* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT



SHINEWING (HK) CPA Limited
17/F, Chubb Tower, Windsor House,
311 Gloucester Road, Causeway Bay,
Hong Kong

信永中和(香港)會計師事務所有限公司
香港銅鑼灣告士打道311號
皇室大廈安達人壽大樓17樓

TO THE MEMBERS OF CHINA SHUN KE LONG HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Shun Ke Long Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 50 to 120, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “IASB”) 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 Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment test on wholesales operation and retail outlet operation cash generating units

Refer to notes 13 and 14 to the consolidated financial statements.

The key audit matter

The Group's wholesales operation cash generating units ("Wholesales CGUs") consisted of certain property, plant and equipment and right-of-use assets with carrying values of RMB296,000 and RMB1,467,000 respectively as at 31 December 2023. During the year ended 31 December 2023, no impairment loss (2022: RMB403,000) was recognised against property, plant and equipment in relation to Wholesales CGUs in the People's Republic of China (the "PRC").

The Group's retail outlet operation cash generating units ("Retail Outlet CGUs") consisted of certain property, plant and equipment and right-of-use assets with carrying values of RMB27,771,000 and RMB85,614,000 respectively as at 31 December 2023. During the year ended 31 December 2023 and 31 December 2022, no impairment loss was recognised against property, plant and equipment in relation to Retail Outlet CGUs in the PRC and Macau.

We have identified the impairment assessment of the Wholesales CGUs and Retail Outlet CGUs as a key audit matter because of its significance to the consolidated financial statements and because determination of the recoverable amount of the relevant cash generating unit required significant management judgement and assumptions made for the profit and cash flow forecasts.

How the matter was addressed in our audit

Our audit procedures were designed to assess the reasonableness of the selection of valuation model, adoption of key assumptions and input data by reference to the historical information together with other external available information. In particular, we have tested the future cash flow forecast prepared by management on whether it is agreed to the budget approved by the directors of the Company and compared the budget with actual results available up to the report date. We have also evaluated the appropriateness of the assumptions, including the future revenue, the future expenses and profit margin, against latest market expectations.

We have also assessed the discount rate employed in the calculation of value-in-use by reviewing its basis of calculation and comparing its input data to market sources.

As any changes in these assumptions and input to valuation model may result in significant financial impact, we have tested management's sensitivity analysis in relation to the key inputs to the impairment assessment which included changes in future revenue and expenses.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS – CONTINUED

Valuation of trade receivables

Refer to note 18 to the consolidated financial statements.

The key audit matter

As at 31 December 2023, the Group had trade receivables of RMB36,738,000, net of accumulated impairment loss of RMB1,237,000.

Allowance for impairment of trade receivables is based on expected credit losses (“ECL”), which is estimated by taking into account the credit loss experience and forward-looking information including both current and forecast general economic conditions.

We have identified valuation of trade receivables as a key audit matter because the impairment assessment of trade receivables involved a significant degree of management judgement and may be subject to management bias.

How the matter was addressed in our audit

Our audit procedures were designed to assess the assumptions and judgements of the Group’s ECL model on impairment assessment of trade receivables.

We have assessed the reasonableness of management’s estimates for impairment allowance by examining the information used by management to form such judgements, including testing accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information.

We have also inspected cash received from debtors after year end relating to trade receivables balance as at 31 December 2023 on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor’s report thereon.

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

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

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY 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 IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Wong Hon Kei, Anthony.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Wong Hon Kei, Anthony

Practising Certificate Number: P05591

Hong Kong

27 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
Revenue	5	667,409	638,761
Cost of inventories sold		(576,205)	(536,554)
Gross profit		91,204	102,207
Other operating income	5	24,416	24,928
Selling and distribution costs		(111,945)	(118,038)
Administrative expenses		(26,068)	(27,794)
Finance costs	7	(4,404)	(4,641)
Impairment losses recognised in respect of property, plant and equipment	13	–	(403)
Impairment loss reversed (Impairment losses recognised) in respect of other receivables	16	138	(1,648)
(Impairment loss recognised) Impairment losses reversed in respect of trade receivables	18	(629)	687
Impairment losses recognised in respect of amounts due from related companies	23	(168)	(202)
Loss before tax	8	(27,456)	(24,904)
Income tax credit (expense)	10	772	(29)
Loss for the year		(26,684)	(24,933)
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements from functional currency to presentation currency		339	845
Loss and total comprehensive expense for the year		(26,345)	(24,088)
(Loss) profit for the year attributable to:			
Owners of the Company		(26,754)	(25,000)
Non-controlling interests		70	67
		(26,684)	(24,933)
(Loss) profit and total comprehensive (expense) income for the year attributable to:			
Owners of the Company		(26,415)	(24,155)
Non-controlling interests		70	67
		(26,345)	(24,088)
Loss per share	11		
Basic (RMB)		(0.09)	(0.09)
Diluted (RMB)		(0.09)	(0.09)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	13	28,095	31,305
Right-of-use assets	14	87,204	82,275
Investment properties	15	8,697	9,024
Deposits paid	16	6,304	9,982
Deferred tax assets	25	772	–
		<u>131,072</u>	<u>132,586</u>
Current assets			
Inventories	17	77,762	111,837
Trade and bills receivables	18	36,971	28,744
Deposits paid, prepayments and other receivables	16	70,741	67,240
Amounts due from related companies	23	277	440
Cash and cash equivalents	19	48,683	48,972
		<u>234,434</u>	<u>257,233</u>
Current liabilities			
Trade payables	20	78,384	95,469
Deposits received, receipts in advance, accruals and other payables	21	25,900	28,644
Lease liabilities	14	24,336	23,008
Contract liabilities	22	13,622	17,832
Bank borrowings	24	28,000	8,000
Tax payable		23	23
		<u>170,265</u>	<u>172,976</u>
Net current assets		<u>64,169</u>	<u>84,257</u>
Total assets less current liabilities		<u>195,241</u>	<u>216,843</u>
Non-current liability			
Lease liabilities	14	44,826	40,083
Net assets		<u>150,415</u>	<u>176,760</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	Note	2023 RMB'000	2022 RMB'000
Capital and reserves			
Share capital	26	2,387	2,387
Reserves		146,794	173,209
Equity attributable to owners of the Company		149,181	175,596
Non-controlling interests		1,234	1,164
Total equity		150,415	176,760

The consolidated financial statements on pages 50 to 120 were approved and authorised for issue by the board of directors on 27 March 2024 and are signed on its behalf by:

Shang Duoxu
Director

Han Wei
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Equity attributable to owners of the Company										Non-controlling interests	Total equity	
	Share capital	Share premium	Special reserve	Merger reserve	Capital reserve	Statutory reserve	Capital contribution reserve	Translation reserve	Retained earnings	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			RMB'000
			(Note a)	(Note b)	(Note c)	(Note d)	(Note e)						
Balance at 1 January 2022	2,387	169,904	84	(6,200)	200	15,768	873	4,538	12,197	199,751	1,097	200,848	
Loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	
Other comprehensive expense for the year	-	-	-	-	-	-	-	-	(25,000)	(25,000)	67	(24,933)	
Exchange differences arising on translation of financial statements from functional currency to presentation currency	-	-	-	-	-	-	-	845	-	845	-	845	
Total comprehensive income (expense) for the year	-	-	-	-	-	-	-	845	(25,000)	(24,155)	67	(24,088)	
Transfer to statutory reserve	-	-	-	-	-	22	-	-	(22)	-	-	-	
Balance at 31 December 2022 and 1 January 2023	2,387	169,904	84	(6,200)	200	15,790	873	5,383	(12,825)	175,596	1,164	176,760	
Loss for the year	-	-	-	-	-	-	-	-	-	-	-	-	
Other comprehensive expense for the year	-	-	-	-	-	-	-	-	(26,754)	(26,754)	70	(26,684)	
Exchange differences arising on translation of financial statements from functional currency to presentation currency	-	-	-	-	-	-	-	339	-	339	-	339	
Total comprehensive income (expense) for the year	-	-	-	-	-	-	-	339	(26,754)	(26,415)	70	(26,345)	
Transfer to statutory reserve	-	-	-	-	-	46	-	-	(46)	-	-	-	
Balance at 31 December 2023	2,387	169,904	84	(6,200)	200	15,836	873	5,722	(39,625)	149,181	1,234	150,415	

Notes:

(a) Special reserve

Special reserve represents the investment cost of a subsidiary which has been carved out of the Group as part of the reorganisation and the proceeds from disposal of that subsidiary.

(b) Merger reserve

The merger reserve of the Group arose as a result of the reorganisation. As at 31 December 2023 and 2022, the balance of merger reserve included the deemed distribution upon the acquisition of a subsidiary from the controlling shareholders as part of the reorganisation.

(c) Capital reserve

Capital reserve represents the capital contribution from the previous shareholders to a subsidiary of the Group.

(d) Statutory reserve

In accordance with the Company Law of the PRC, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

(e) Capital contribution reserve

Capital contribution reserve of the Group represented the capital contribution upon acquisition of the net assets of a subsidiary pursuant to a group reorganisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 RMB'000	2022 RMB'000
OPERATING ACTIVITIES		
Loss before tax	(27,456)	(24,904)
Adjustments for:		
Interest income on bank deposits	(291)	(788)
Depreciation of investment properties	327	327
Depreciation of property, plant and equipment	7,843	9,131
Depreciation of right-of-use assets	31,267	37,716
(Impairment loss reversed) Impairment losses recognised in respect of other receivables	(138)	1,648
Impairment loss recognised (Impairment losses reversed) in respect of trade receivables	629	(687)
Impairment losses recognised in respect of amounts due from related companies	168	202
Impairment losses recognised in respect of property, plant and equipment	–	403
Government grant	(411)	(879)
Gain on leases termination	(1,174)	(1,402)
Finance costs	4,404	4,641
Loss on disposal of property, plant and equipment	24	165
Property, plant and equipment written off	2	108
Obsolete inventories written off	728	691
Operating cash flows before movements in working capital	15,922	26,372
Decrease (increase) in inventories	33,347	(4,729)
Increase in trade and bills receivables	(8,856)	(3,363)
Increase in amount due from related companies	(5)	–
Decrease in deposits paid, prepayments and other receivables	188	9,418
(Decrease) increase in trade payables	(17,101)	15,541
(Decrease) increase in deposits received, receipts in advance, accruals and other payables	(2,753)	584
Decrease in contract liabilities	(4,210)	(802)
Cash generated from operations	16,532	43,021
Income tax paid	–	(31)
NET CASH FROM OPERATING ACTIVITIES	16,532	42,990
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(5,250)	(4,829)
Interest received	420	1,026
Proceeds on disposal of property, plant and equipment	591	235
NET CASH USED IN INVESTING ACTIVITIES	(4,239)	(3,568)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 RMB'000	2022 RMB'000
FINANCING ACTIVITIES		
Bank borrowings repaid	(8,000)	(60,000)
Repayment of capital element of lease liabilities	(28,951)	(38,946)
Interest paid on lease liabilities and bank borrowings	(4,404)	(4,641)
Government grant obtained	411	879
New bank borrowings raised	28,000	8,000
	<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES	(12,944)	(94,708)
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(651)	(55,286)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	48,972	103,343
	<hr/>	<hr/>
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	362	915
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	48,683	48,972
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

1. GENERAL

China Shun Ke Long Holdings Limited (the “Company”, together with its subsidiaries, collectively referred to as the “Group”) was incorporated as an exempted company with limited liability in the Cayman Islands on 18 March 2013 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s registered office is located at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, the Cayman Islands and its principal place of business in the PRC is located at Floor 3, Huale Building, No.60 Hebin North Road, Lecong Town Shunde District, Foshan, Guangdong Province 528315, the PRC.

The Company was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 26 May 2015. The ordinary shares of the Company (the “Shares”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 10 September 2015.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 34.

CCOOP International Holdings Limited, which is a company incorporated in the Cayman Islands and an indirectly wholly-owned subsidiary of CCOOP Group Co., Ltd. (“CCOOP Group”), a company incorporated in the PRC, holds 204,558,317 ordinary shares in aggregate, representing 70.42% of the entire issued share capital of the Company. In the opinion of the directors of the Company, the holding company of the Company is CCOOP Group, the shares of which are listed on the Shenzhen Stock Exchange. Hainan HNA No.2 Trust Management Service Co., Ltd., a company incorporated in the PRC is the ultimate holding company. There is a potential change of controlling shareholder of CCOOP Group. For more details please refer to note 37.

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Renminbi (“RMB”), which is the functional currency of the principal subsidiaries of the Group where the primary economic environment is in the PRC. Other than the subsidiaries established in the PRC and Macau which functional currencies are RMB and Macau Pataca (“MOP”) respectively, the functional currency of the Company and other subsidiaries is Hong Kong dollars (“HK\$”). All values are rounded to the nearest thousand (“RMB’000”) unless otherwise stated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS(s)”)

In the current year, the Group has applied, the following new and amendments to International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standard Board (the “IASB”) for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform-Pillar Two Model Rules

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

Impact on application of Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their “significant” accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The application of the amendments has had no material impact on the Group’s financial performance and positions, but has affected the disclosures of accounting policies as set out in note 3.

Impact on application of Amendments to IAS 8 – Definition of Accounting Estimates

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS(s)”) – CONTINUED

Impact on application of Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments to IAS 12 narrow the scope of the initial recognition exemption of deferred tax liabilities and deferred tax assets so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences, such as leases and decommissioning liabilities. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained earnings at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

The Group previously applied HKAS 12 requirements to the relevant assets and liabilities as a whole. Temporary differences relating to relevant assets and liabilities are assessed on a net basis. Upon application of the amendments, the Group has recognised a separate deferred tax asset and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities. There was no impact on the consolidated statement of financial position because the related deferred tax balances qualify for offsetting under HKAS 12. There was no impact on the opening retained earnings as at 1 January 2022. The key impact to the Group relates to the disclosures of the component of deferred tax assets and liabilities as disclosed in note 25.

Amendments to IFRSs issued but not yet effective

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

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ¹
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ¹
Amendments to IAS 1	Non-current Liabilities with Covenants ¹
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements ¹
Amendments to HKAS 21	Lack of Exchangeability ²

¹ Effective for annual periods beginning on or after 1 January 2024.

² Effective for annual periods beginning on or after 1 January 2025.

³ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that, the application of the amendments to IFRSs will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period.

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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The material accounting policies are set out below.

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 where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries 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 component of other comprehensive income of subsidiaries 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Revenue from contracts with customers

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognised 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 customers.

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 same.

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

- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- The Group’s performance creates and enhances an asset that the customer controls as the asset is created and enhanced; 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 goods or services.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Revenue from contracts with customers – continued

Contract liabilities

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer.

For a single contract with the customer, either a net contract asset or a net contract liability is presented.

The Group recognised revenue from the following major sources:

- merchandise sales from retail outlet operation and wholesale distribution
- commission from concessionaire sales
- promotion income from suppliers

Merchandise sales from retail outlet operation and wholesale distribution

For the general retail sales under retail outlet operation, revenue is recognised when control passes to the retail customers, being the point the retail customers purchase the goods at the retail outlets. Payment of transaction price is due immediately at the point the retail customers purchase the goods. The payment is usually settled in cash, using credit cards or by means of electronic payment.

Revenue from bulk sales of goods to retail customers under retail outlet operation is recognised when control of products has transferred, being when the products are delivered and there is no unfulfilled obligation that could affect them to accept the products. The retail customers make payments upon products delivery or according to the agreed credit terms normally for a period of 0-180 days from the invoice date. Collected payments before product delivery is recognised as contract liabilities.

The Group's retail outlet operation operates a customer loyalty incentive program organized by an independent third party which allows customers to accumulate points when they purchase products. The points can be redeemed for cash rewards or free products, subject to a minimum number of points obtained, provided by the Group or another entities who join the program. The customer loyalty incentive programme gives rise to a separate performance obligation because it generally provides a material right to the customer. The Group allocates a portion of the transaction price to the customer loyalty incentive programme based on relative standalone selling price. Such consideration is not recognised as revenue at the time of initial sale transaction, but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Revenue from sales of goods to wholesalers or franchisees is recognised when control of the products has transferred, being when the products are delivered to the wholesalers or the franchisees and there is no unfulfilled obligation that could affect them to accept the products. The wholesalers or franchisees make payments upon products delivery or according to the agreed credit terms normally for a period of 0-180 days from the invoice date. Collected payments before product delivery is recognised as contract liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Revenue from contracts with customers – continued

Commission income from concessionaire sales

The Group grants counter suppliers the right to operate business within retail outlets under a concession. The Group recognises commission income from concessionaire sales upon sales of goods or provision of services by counter suppliers. The Group receives the gross proceeds of concessionaire sales from retail customers on behalf of the counter suppliers and subsequently transfers the proceeds to the counter suppliers after deducting the commission income, out of pocket expenses, expenses in relation to the promotional activities and other administrative expenses according to the terms of the relevant concessionaire agreements.

Promotion income from suppliers

The Group arranges promotion of products with respective suppliers and promotion income from suppliers are attributable to these promotional events and activities. Promotion income from suppliers is recognised when promotion services are rendered according to the terms of promotion service agreements.

Leasing

Definition of a lease

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

The Group as lessee

For contracts entered into or modified on or after the date of initial application of IFRS 16 Leases, the Group assesses whether a contract is or contains a lease, at inception of the contract or modification date. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

The lease liability is presented as a separate line in the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Leasing – continued

The Group as lessee – continued

Lease liabilities – continued

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured 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.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position. The right-of-use assets that meet the definition of investment property are presented within “investment property”.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in “Selling and distribution costs” in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Leasing – continued

The Group as lessee – continued

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 standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient for all leases.

Lease modification

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 lease 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 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 lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties and leased retail areas. 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 of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset. If the head lease is a short-term lease to which the Group applies the exemption described above, the sublease shall be classified as an operating lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Borrowing costs

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

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

Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Retirement benefits costs

Payments to defined contribution plans including state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the “MPF Scheme”) are recognised as an expense when employees have rendered service entitling them to the contributions.

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 recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Government grants

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

Government grants 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.

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 bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences.

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 profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Taxation – continued

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

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.

Ownership interests in leasehold land and buildings

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as “right-of-use assets” in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment 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 sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties also include leased properties recognised by the Group as right-of-use assets.

Owned investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – 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 its disposals. 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 the profit or loss in the period in which the property is derecognised.

If an item of property, plant and equipment becomes an investment property when there is a change in use, as supported by observable evidence, the carrying amount of that item at the date of transfer is the deemed cost for subsequent accounting for that property as an item of investment property.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first out method. Net realisable value represents the estimated selling price for inventories less all costs necessary to make the sale.

Cash and cash equivalents

In the consolidated statement of financial position, cash and bank balances comprise cash (i.e. cash on hand and demand deposits) and cash equivalents. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

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

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less identified impairment loss.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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 IFRS 15 Revenue from Contracts with Customers. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Financial instruments – continued

Financial assets

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.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (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) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Financial instruments – continued

Financial assets – continued

Amortised cost and effective interest method – continued

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets, 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. 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. If, in subsequent reporting periods, 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.

Interest income is recognised in profit or loss and is included in “Other operating income”(note 5).

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (“FVTOCI”) are measured at FVTPL. Specifically, debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

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 to the extent they are not part of a designated hedging relationship. 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 operating income’ line item.

Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost and lease receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, lease receivables and trade-related amounts due from related companies. The ECL on these financial assets are estimated using a provision matrix 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 as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Financial instruments – continued

Financial assets – continued

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- 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;
- significant increases in credit risk on other financial instruments of the same 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 on a financial asset 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.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) the debt instrument has a low risk of default, (ii) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Financial instruments – continued

Financial assets – continued

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, 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.

Credit-impaired financial assets

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

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

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. 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. Any recoveries made are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Financial instruments – continued

Financial assets – continued

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 adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount 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 party.

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 debt or equity

Debt 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 a group entity are recognised at the proceeds received, net of direct issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments – continued

Financial liabilities

All the Group's financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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 liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Impairment losses on property, plant and equipment and right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of property, plant and equipment and right-of-use assets are estimated individually. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

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 for which the estimates of future cash flows have not been adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

Impairment losses on property, plant and equipment and right-of-use assets – continued

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 the CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a 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 a CGU) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Fair value measurement

When measuring fair value except for the Group's share-based payment transactions, leasing transactions, net realisable value of inventories and value in use of property, plant and equipment and right-of-use assets for the purpose of impairment assessment, 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.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an 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.

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Classification between investment properties and owner-occupied properties

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

Key sources of estimation uncertainty

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

Impairment assessment on cash generating units ("CGUs")

The Group's retail outlet operation CGUs ("Retail Outlet CGUs") and wholesales operation CGUs ("Wholesales CGUs") consist of certain property, plant and equipment and right-of-use assets. In determining whether there is any impairment loss of the CGUs, management estimated the recoverable amounts of the CGUs based on the value in use calculation. The value in use calculation is prepared by independent professional valuers based on the management's assumptions and estimates taking into account the existing business plan and other strategic business development. These calculations require the use of estimates such as the future revenue, expenses and discount rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Key sources of estimation uncertainty – continued

Impairment assessment on cash generating units (“CGUs”) – continued

As at 31 December 2023, the carrying values of related property, plant and equipment and related right-of-use assets of Wholesales CGUs were RMB296,000 (2022: RMB34,000) and RMB1,467,000 (2022: RMB2,343,000) respectively. No impairment loss were recognised against property, plant and equipment and related right-of-use assets (2022: Impairment loss of RMB403,000 was recognised against property, plant and equipment) in relation to Wholesales CGUs in the PRC during the year ended 31 December 2023.

As at 31 December 2023, the carrying values of related property, plant and equipment and related right-of-use assets of Retail Outlet CGUs were RMB27,771,000 (2022: RMB31,257,000) and RMB85,614,000 (2022: 79,670,000), respectively. No impairment loss was recognised against property, plant and equipment and related right-of-use assets in relation to Retail Outlet CGUs in the PRC and Macau for both years.

Impairment of trade receivables

The impairment provision for trade receivables is based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical credit loss experience, existing market conditions and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to profit or loss. As at 31 December 2023, the carrying amount of trade receivables was RMB36,738,000 (2022: RMB28,660,000). During the year ended 31 December 2023, impairment loss of RMB629,000 (2022: reversal of impairment loss of RMB687,000) was recognised.

Allowance for inventories

The Group makes the allowance for inventories based on assessments of the net realisable value and ageing analysis of inventories and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. As at 31 December 2023, the carrying amount of inventories was RMB77,762,000 (2022: RMB111,837,000). During the year ended 31 December 2023, obsolete inventories of RMB728,000 (2022: RMB691,000) was written off.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the useful lives and residual values of the property, plant and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period.

As at 31 December 2023, there were no changes on the estimated useful lives and residual values after performing annual assessment and the related depreciation of the property, plant and equipment with carrying values of RMB28,095,000 (2022: RMB31,305,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

5. REVENUE AND OTHER OPERATING INCOME

(a) Revenue

Revenue represents revenue arising on sale of goods, net of discounts and sales related taxes, where applicable, rental income and the value of services rendered. An analysis of the Group's revenue for the year is as follows:

	2023 RMB'000	2022 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
– Sales of goods		
General retail sales under retail outlet operation (<i>Note</i>)	510,824	504,123
Bulk sales under retail outlet operation	5,995	7,012
General wholesales under wholesale distribution	135,020	107,056
– Services rendered		
Commission from concessionaire sales under retail outlet operation	3,004	3,031
	<u>654,843</u>	<u>621,222</u>
Revenue from other sources		
Rental income from subleasing certain retail areas under retail outlet operation		
– Lease payments that are fixed	12,566	17,539
	<u>667,409</u>	<u>638,761</u>

Note: General retail sales included the compensation for reduced selling prices of approximately RMB770,000 and RMB1,200,000 from the local government in the PRC which was classified as revenue during the years ended 31 December 2023 and 2022 respectively. In the opinion of the directors of the Company, it was directly related to the sales of daily necessities food and was related to the ordinary and usual course of the business of the Group. Accordingly, it was classified as revenue of the Group.

Disaggregation of revenue from contracts with customers by timing of recognition

	2023 RMB'000	2022 RMB'000
Timing of revenue recognition		
At a point of time	<u>654,843</u>	<u>621,222</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

5. REVENUE AND OTHER OPERATING INCOME – CONTINUED

(a) Revenue – continued

Transaction price allocated to the remaining performance obligation for contracts with customers

As at 31 December 2023 and 2022, all of the Group's remaining performance obligations for contracts with customers are for periods of one year or less. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as at the end of both reporting periods.

(b) Other operating income

	2023 RMB'000	2022 RMB'000
Government grants (<i>Note i</i>)	411	879
Interest income on bank deposits	291	788
Net exchange gains	80	55
Net rental income from investment properties (<i>Note ii</i>)		
Lease payments that are fixed	1,835	1,755
Promotion income from suppliers	15,093	15,282
Gain on lease termination (<i>Note iii</i>)	1,174	1,402
Others	5,532	4,767
	<u>24,416</u>	<u>24,928</u>

Notes:

(i) Various local government grants were granted to the Group in respect of certain research projects during the years ended 31 December 2023 and 2022. There were no unfulfilled conditions or contingencies attached to these government grants.

(ii) An analysis of the Group's net rental income is as follows:

	2023 RMB'000	2022 RMB'000
Gross rental income	1,911	1,828
Less: Outgoing incurred for investment properties that generated rental income during the year	(76)	(73)
Net rental income	<u>1,835</u>	<u>1,755</u>

(iii) During the year ended 31 December 2023, gain on early termination of a lease represented the net difference of approximately RMB1,174,000 comprising an approximately RMB11,966,000 decrease in right-of-use assets and an approximately RMB13,140,000 decrease in lease liabilities.

During the year ended 31 December 2022, gain on early termination of a lease represented the net difference of approximately RMB1,402,000 comprising an approximately RMB11,140,000 decrease in right-of-use assets and an approximately RMB12,542,000 decrease in lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. OPERATING SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision maker (“CODM”), being the chief executive of the Company, that are used to make strategic decisions. The Group has two reportable segments. The segments are managed separately as each business offers different services and requires different business strategies. The following summary describes the operations in each of the Group’s reportable segments:

- Retail outlet operation (sales of fresh food, non-staple food and household products); and
- Wholesale distribution (sales of fast consumable products and non-staple food)

The management assesses the performance of the operating segments based on the measure of segment results which represents the net of revenue, cost of inventories sold, other operating income, selling and distribution costs, administrative expenses and finance costs directly attributable to each operating segment without allocation of certain other operating income and central administrative costs. This is the measure reported to the CODM for the purpose of resource allocation and performance assessment.

Segment revenue and results

For the year ended 31 December 2023

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Inter-segment elimination RMB'000	Total RMB'000
REVENUE				
From external customers	532,389	135,020	–	667,409
From inter-segment	33,420	11,537	(44,957)	–
Reportable segment revenue	565,809	146,557	(44,957)	667,409
Reportable segment loss	(25,590)	1,954		(23,636)
Other corporate income				128
Other corporate expenses				(3,948)
Loss before tax				(27,456)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. OPERATING SEGMENT INFORMATION – CONTINUED

Segment revenue and results – continued

For the year ended 31 December 2022

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Inter-segment elimination RMB'000	Total RMB'000
REVENUE				
From external customers	531,705	107,056	–	638,761
From inter-segment	41,855	14,562	(56,417)	–
Reportable segment revenue	<u>573,560</u>	<u>121,618</u>	<u>(56,417)</u>	<u>638,761</u>
Reportable segment loss	<u>(18,075)</u>	<u>(2,463)</u>		(20,538)
Other corporate income				618
Other corporate expenses				(4,984)
Loss before tax				<u>(24,904)</u>

Segment assets and liabilities

	2023 RMB'000	2022 RMB'000
Retail outlet operation	294,977	315,127
Wholesale distribution	66,263	60,350
Total segment assets	<u>361,240</u>	<u>375,477</u>
Other corporate assets (Note)	4,266	14,342
Group's assets	<u>365,506</u>	<u>389,819</u>
Retail outlet operation	209,945	204,976
Wholesale distribution	4,076	7,266
Total segment liabilities	<u>214,021</u>	<u>212,242</u>
Other corporate liabilities (Note)	1,070	817
Group's liabilities	<u>215,091</u>	<u>213,059</u>

Note:

For the purpose of monitoring segment performances and allocating resources between segments:

- All assets are allocated to reportable and operating segments, other than certain property, plant and equipment, certain right-of-use assets, certain deposit paid, prepayments and other receivables and certain cash and cash equivalents.
- All liabilities are allocated to reportable and operating segments, other than certain other payables relating to central administrative costs and certain lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. OPERATING SEGMENT INFORMATION – CONTINUED

Other segment information

For the year ended 31 December 2023

Amounts included in the measure of segment profit or loss or segment assets:

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Unallocated RMB'000	Total RMB'000
Addition to property, plant and equipment	5,204	46	–	5,250
Addition to right-of-use assets	47,161	885	116	48,162
Depreciation of property, plant and equipment	7,689	146	8	7,843
Depreciation of investment properties	327	–	–	327
Depreciation of right-of-use assets	29,183	1,765	319	31,267
Obsolete inventories written-off	728	–	–	728
Finance cost	4,307	92	5	4,404
Loss on disposal of property, plant and equipment	24	–	–	24
Property, plant and equipment written-off	2	–	–	2
Interest income on bank deposits	(199)	(7)	(85)	(291)
Government grant	(411)	–	–	(411)
Impairment losses recognised in respect of property, plant and equipment	–	–	–	–
Impairment losses in respect of trade receivables	150	479	–	629
(Reversal) recognition of impairment losses in respect of other receivables	22	–	(160)	(138)
Recognition of impairment losses in respect of amounts due from related companies	168	–	–	168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. OPERATING SEGMENT INFORMATION – CONTINUED

Other segment information – continued

	Retail outlet operation RMB'000	Wholesale distribution RMB'000	Unallocated RMB'000	Total RMB'000
For the year ended 31 December 2022				
Amounts included in the measure of segment profit or loss or segment assets:				
Addition to property, plant and equipment	4,813	16	–	4,829
Addition to right-of-use assets	17,272	3,103	–	20,375
Depreciation of property, plant and equipment	8,672	172	287	9,131
Depreciation of investment properties	327	–	–	327
Depreciation of right-of-use assets	36,101	1,209	406	37,716
Obsolete inventories written-off	687	4	–	691
Finance cost	4,529	93	19	4,641
Loss on disposal of property, plant and equipment	165	–	–	165
Property, plant and equipment written-off	108	–	–	108
Interest income on bank deposits	(706)	(12)	(70)	(788)
Government grant	(721)	(5)	(153)	(879)
Impairment losses recognised in respect of property, plant and equipment	–	403	–	403
Reversal of impairment losses in respect of trade receivables	(421)	(266)	–	(687)
Recognition of impairment losses in respect of other receivables	1,087	–	561	1,648
Recognition of impairment losses in respect of amounts due from related companies	202	–	–	202

Geographic Information

The Group's revenue from external customers and its non-current assets are all divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
The PRC (place of domicile)	667,409	636,406	123,818	122,589
Macau	–	2,355	–	–
Hong Kong	–	–	148	15
	<u>667,409</u>	<u>638,761</u>	<u>123,966</u>	<u>122,604</u>

Deposits paid and deferred tax assets are excluded from non-current assets under geographical information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

6. OPERATING SEGMENT INFORMATION – CONTINUED

Geographic Information – continued

The PRC is the country of domicile of the Group. The country of domicile is determined by referring to the country which the Group regards as its home country, has the majority of operations and centre of management.

The geographical location of customers is based on the location at which the goods were sold and the services were rendered. The geographical location of the non-current assets is based on the physical location of the asset.

The Group's revenue from external customers is derived from the PRC and Macau. No single customer of the Group contributed 10% or more to the Group's revenue for the years ended 31 December 2023 and 2022.

7. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest on:		
Bank borrowings	449	948
Lease liabilities	3,955	3,693
	<u>4,404</u>	<u>4,641</u>

8. LOSS BEFORE TAX

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

	2023 RMB'000	2022 RMB'000
Depreciation of investment properties	327	327
Depreciation of property, plant and equipment	7,843	9,131
Depreciation of right-of-use assets	31,267	37,716
Employee benefits expenses (excluding directors' remuneration (Note 9)):		
– Wages and salaries	52,418	52,027
– Pension scheme contributions	8,407	7,660
– Other benefits	1,177	490
	<u>62,002</u>	<u>60,177</u>
Auditor's remuneration	1,000	1,000
Obsolete inventories written-off (included in cost of inventories sold)	728	691
Property, plant and equipment written-off	2	108
Loss on disposals of property, plant and equipment	24	165

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

- (a) The emoluments paid or payable to each of the 7 (2022: 6) directors and the chief executive officer ("CEO") were as follows:

For year ended 31 December 2023

	Mr. Han Wei RMB'000	Mr. Shang Duoxu RMB'000 <i>(note v)</i>	Total RMB'000
A) EXECUTIVE DIRECTORS:			
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries			
Fees	-	-	-
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries			
Other emoluments:			
Salaries and allowances	87	157	244
Pension scheme contributions	-	-	-
	<u>87</u>	<u>157</u>	<u>244</u>
Compensation for termination of service of directors:			
Contractual payments for:			
Loss of any other office in connection with the management of the affairs of the Company and its subsidiaries by the Company	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Sub-total emoluments	<u>87</u>	<u>157</u>	<u>244</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – CONTINUED

(a) Director's emoluments – continued

For year ended 31 December 2023 – continued

	Mr. Wang Hui RMB'000 (note v)
B) NON-EXECUTIVE DIRECTOR:	
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries	
Fees	–
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries	
Other emoluments:	
Salaries and allowances	105
Pension scheme contributions	–
	<hr/>
Sub-total emoluments	105

	Mr. Cheng Hok Kai Frederick RMB'000	Mr. Zou Pingxue RMB'000 (note i)	Mr. Wang Yilin RMB'000 (note iii)	Mr. Ma Ren RMB'000 (note ii)	Total RMB'000
C) INDEPENDENT NON-EXECUTIVE DIRECTORS:					
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries					
Fees	200	65	124	85	474
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries					
Other emoluments:					
Salaries and allowances	–	–	–	–	–
Pension scheme contributions	–	–	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Sub-total emoluments	200	65	124	85	474
Total emoluments					823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – CONTINUED

(a) Director's emoluments – continued

For year ended 31 December 2022

	Mr. Han Wei RMB'000	Mr. Du Xiaoping RMB'000 <i>(note v)</i>	Total RMB'000
A) EXECUTIVE DIRECTORS:			
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries			
Fees	–	–	–
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries			
Other emoluments:			
Salaries and allowances	–	–	–
Pension scheme contributions	–	–	–
	—	—	—
	–	–	–
Compensation for termination of service of directors:			
Contractual payments for:			
Loss of any other office in connection with the management of the affairs of the Company and its subsidiaries by the Company	–	–	–
	—	—	—
Sub-total emoluments	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – CONTINUED

(a) Director's emoluments – continued

For year ended 31 December 2022 – continued

					Mr. Wang Fu Lin RMB'000 (note v)
B) NON-EXECUTIVE DIRECTOR:					
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries					
Fees					–
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries					
Other emoluments:					
Salaries and allowances					–
Pension scheme contributions					–
					<hr/>
Sub-total emoluments					<hr/>
	Mr. Cheng Hok Kai Frederick RMB'000	Mr. Zou Pingxue RMB'000 (note i)	Mr. Wang Yilin RMB'000 (note iii)		Total RMB'000
C) INDEPENDENT NON-EXECUTIVE DIRECTORS:					
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiaries					
Fees	200	149	149		498
Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiaries					
Other emoluments:					
Salaries and allowances	–	–	–		–
Pension scheme contributions	–	–	–		–
	<hr/>	<hr/>	<hr/>		<hr/>
Sub-total emoluments	<hr/> 200	<hr/> 149	<hr/> 149		<hr/> 498
Total emoluments					<hr/> <hr/> 498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

9. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS – CONTINUED

(a) Director's emoluments – continued

For year ended 31 December 2022 – continued

Notes:

- (i) On 6 June 2023, Mr. Zou Pingxue was retired as independent non-executive directors.
- (ii) On 6 June 2023, Mr. Ma Ren was appointed as independent non-executive directors.
- (iii) On 26 October 2023, Mr. Wang Yilin was resigned as independent non-executive directors.
- (iv) On 6 January 2022, Mr. Du Xiaoping and Mr. Wang Fu Lin resigned as executive director and non-executive director respectively.
- (v) On 25 February 2022, Mr. Shang Duoxu and Ms. Wang Hui were appointed as executive director and non-executive director respectively.

No directors and the CEO waived or agreed to waive any emoluments during both years.

(b) Five highest paid employees

Of the five individuals with the highest emoluments in the Group, no director of the Company whose emolument is included in the note 9 (a) for the years ended 31 December 2023 and 2022. The emoluments of the remaining five (2022: five) individuals are as follows:

	2023 RMB'000	2022 RMB'000
Salaries and other benefits	1,856	1,902
Pension scheme contributions	15	15
	<u>1,871</u>	<u>1,917</u>

Their emoluments were within the following bands:

	2023 No. of individuals	2022 No. of individuals
Nil to RMB905,000 (2022: Nil to RMB855,000) (approximately Nil – HK\$1,000,000)	<u>5</u>	<u>5</u>

During the years ended 31 December 2023 and 2022, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

10. INCOME TAX CREDIT (EXPENSE)

The amount of income tax credit (expense) in the consolidated statement of profit or loss and other comprehensive income represents:

	2023 RMB'000	2022 RMB'000
Current – the PRC		
Under provision in prior year	–	(6)
Charge for the year	–	(23)
	<hr/>	<hr/>
	–	(29)
Deferred tax (<i>note 25</i>)	772	–
	<hr/>	<hr/>
	772	(29)
	<hr/> <hr/>	<hr/> <hr/>

The Group is not subject to any income tax under the jurisdiction of the Cayman Islands and the British Virgin Islands (the “BVI”) for the years ended 31 December 2023 and 2022.

No provision for Hong Kong Profits Tax has been provided as the Group has no estimated assessable profits arising in Hong Kong for the years ended 31 December 2023 and 2022.

The Group’s subsidiaries in the PRC are subject to Enterprise Income Tax at the rate of 25% based on the estimated assessable profits for the years ended 31 December 2023 and 2022.

No tax is payable on the profit for the year arising in PRC since the assessable profit is wholly absorbed by tax losses brought forward. The tax losses carried forward amount to approximately RMB80,497,000.

From 1 January 2019 to 31 December 2023, under relevant PRC Enterprise Income Tax Law, for PRC enterprises that qualifies for small enterprises, annual taxable income below RMB3 million and thin-profit enterprises with an annual taxable income of RMB1 million or less are applicable to the effective tax rate of 5%. Where their annual taxable income exceeds RMB1 million but does not exceed RMB3 million, the RMB1 million portion will be subject to an effective tax rate of 5%, whereas the excess portion will be subject to the effective tax rate of 10%.

The Law of the PRC on Enterprise Income Tax allows enterprises to apply for the certificates of “High and New Technology Enterprise” (“HNTE”) which entitles the qualified companies to a preferential income tax rate of 15%. 廣東省順客隆商業連鎖有限公司, a PRC subsidiary of the Group, has been qualified as a HNTE in 2017 and its income tax rate is 15% for the years ended 31 December 2022.

The Group’s subsidiaries in Macau are subject to Complementary Tax at a rate of 12% based on estimated assessable profits for the years ended 31 December 2023 and 2022. During the years ended 31 December 2023 and 2022, no Macau Complementary Income Tax has been provided as there were no assessable profits generated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

10. INCOME TAX CREDIT (EXPENSE) – CONTINUED

The income tax expense for the year can be reconciled to the loss before tax for the consolidated statement of profit or loss and other comprehensive income as follows:

	2023 RMB'000	2022 RMB'000
Loss before tax	<u>(27,456)</u>	<u>(24,904)</u>
Tax on loss before tax, calculated at the rates applicable to loss in the tax jurisdictions concerned	(6,126)	(5,564)
Tax effect of expenses not deductible for tax purposes	24	116
Utilisation of tax losses previously not recognised	(144)	(50)
Tax effect of tax losses not recognised	4,889	5,182
Tax effect of deductible temporary differences not recognised	(165)	(176)
Under-provision in prior years	–	6
Income tax on concessionary rate	<u>750</u>	<u>515</u>
Income tax (credit) expense	<u>(772)</u>	<u>29</u>

11. LOSS PER SHARE

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

	2023 RMB'000	2022 RMB'000
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic and diluted loss per share	<u>(26,754)</u>	<u>(25,000)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	<u>290,457,000</u>	<u>290,457,000</u>

The diluted loss per share is the same as the basic loss per share as there are no potential dilutive ordinary shares outstanding during the years ended 31 December 2023 and 2022 or at the end of both reporting periods.

12. DIVIDEND

The board of directors does not recommend the payment of final dividend for the years ended 31 December 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and equipment RMB'000	Total RMB'000
Cost						
At 1 January 2022	19,499	45,224	6,860	7,490	33,341	112,414
Exchange realignment	-	-	-	-	6	6
Additions	-	2,577	187	245	1,820	4,829
Disposals	-	-	(12)	-	(555)	(567)
Write-off	-	(1,158)	(375)	(317)	(2,154)	(4,004)
At 31 December 2022 and 1 January 2023	<u>19,499</u>	<u>46,643</u>	<u>6,660</u>	<u>7,418</u>	<u>32,458</u>	<u>112,678</u>
Exchange realignment	-	-	-	-	10	10
Additions	-	2,469	140	913	1,728	5,250
Disposals	-	-	(1,221)	(657)	(2,138)	(4,016)
Write-off	-	-	-	-	(46)	(46)
At 31 December 2023	<u>19,499</u>	<u>49,112</u>	<u>5,579</u>	<u>7,674</u>	<u>32,012</u>	<u>113,876</u>
Accumulated depreciation and impairment						
At 1 January 2022	5,662	33,432	5,577	6,458	24,769	75,898
Exchange realignment	-	-	-	-	4	4
Depreciation provided for the year	509	4,972	372	310	2,968	9,131
Eliminated on disposals	-	-	(10)	-	(157)	(167)
Eliminated on write-off	-	(1,109)	(344)	(289)	(2,154)	(3,896)
Impairment loss recognised for the year	-	24	5	340	34	403
At 31 December 2022 and 1 January 2023	<u>6,171</u>	<u>37,319</u>	<u>5,600</u>	<u>6,819</u>	<u>25,464</u>	<u>81,373</u>
Exchange realignment	-	-	-	-	10	10
Depreciation provided for the year	509	4,331	337	340	2,326	7,843
Eliminated on disposals	-	-	(1,158)	(621)	(1,622)	(3,401)
Eliminated on write-off	-	-	-	-	(44)	(44)
At 31 December 2023	<u>6,680</u>	<u>41,650</u>	<u>4,779</u>	<u>6,538</u>	<u>26,134</u>	<u>85,781</u>
Carrying values						
At 31 December 2023	<u>12,819</u>	<u>7,462</u>	<u>800</u>	<u>1,136</u>	<u>5,878</u>	<u>28,095</u>
At 31 December 2022	<u>13,328</u>	<u>9,324</u>	<u>1,060</u>	<u>599</u>	<u>6,994</u>	<u>31,305</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

13. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

The Group's buildings are erected on land located in the PRC.

The above items of property, plant and equipment are depreciated using the straight-line basis, after taking into account of their estimated residual values, at the following rates per annum:

Buildings	5% or over the lease terms of the relevant land, if shorter
Leasehold improvements	5% or over the lease terms of the relevant properties, if shorter
Plant and machinery	11% – 32%
Motor vehicles	10% – 25%
Furniture, fixtures and equipment	8% – 32%

As at 31 December 2023 and 2022, certain buildings with carrying values of approximately RMB10,985,000 and RMB10,480,000 respectively have been pledged to the bank for banking facilities granted to the Group (see note 24).

The retail outlets in Foshan and Zhaoqing were making loss during the year ended 31 December 2023. The management carried out an impairment assessment for the relevant Retail Outlet CGU in Foshan and Zhaoqing. The estimate of the recoverable amount was based on value-in-use calculation using the discounted cash projection at pre-tax discount rate of 10.04% per annum based on the financial forecast approved by management covering a period of the remaining lease terms. Key assumptions for the value-in-use calculation include future revenue, budgeted gross margin and operating costs, which were determined based on the past performance, the Group's business plan and management expectations for the market development. As a result, no impairment losses of property, plant and equipment and related right-of-use assets for Retail Outlet CGU in Foshan and Zhaoqing was recognised during the year ended 31 December 2023.

The wholesales operation in Foshan were making loss during the year ended 31 December 2022 due to the impact of temporary suspension of wholesales operation in the PRC during the outbreak of the COVID-19. The management carried out an impairment assessment for the relevant Wholesales CGU in Foshan. The estimate of the recoverable amount was based on value-in-use calculation using the discounted cash projection at pre-tax discount rate of 10.60% per annum based on the financial forecast approved by management covering a period of the remaining lease terms. Key assumptions for the value-in-use calculation include future revenue, budgeted gross margin and operating costs, which were determined based on the past performance, the Group's business plan and management expectations for the market development. As a result, Impairment losses of property, plant and equipment of RMB403,000 for Wholesales CGU in Foshan was recognised during the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

14. LEASES

(i) Right-of-use assets

	Other properties leased for own use RMB'000	Ownership interests on leasehold land RMB'000	Total RMB'000
Balance as at 1 January 2022	87,880	22,876	110,756
Additions	20,375	–	20,375
Depreciation	(36,844)	(872)	(37,716)
Termination of leases	(11,140)	–	(11,140)
	<u>60,271</u>	<u>22,004</u>	<u>82,275</u>
Balance as at 31 December 2022 and 1 January 2023	60,271	22,004	82,275
Additions	48,162	–	48,162
Depreciation	(30,395)	(872)	(31,267)
Termination of leases	(11,966)	–	(11,966)
	<u>66,072</u>	<u>21,132</u>	<u>87,204</u>
Balance as at 31 December 2023	66,072	21,132	87,204

At 31 December 2023, right-of-use assets of RMB21,132,000 (2022: RMB22,004,000) represents land use rights locating in the PRC.

As at 31 December 2023, certain ownership interests in leasehold land with carrying values of approximately RMB19,232,000 (2022: RMB19,243,000) have been pledged to the bank for banking facilities granted to the Group (see note 24).

The Group has lease arrangements for retail outlets, warehouses and office premises. The lease terms are generally ranged from thirteen months to twelve years at fixed rentals. The Group has also entered into short-term leases arrangements in respect of retail outlets, warehouses and office premises. During the years ended 31 December 2023 and 2022, no expenses related to variable lease payments of the lease were recognised into profit or loss.

Additions to the right-of-use assets for the year ended 31 December 2023 amounted to RMB48,162,000 (2022: RMB20,375,000), due to new leases of retail outlets, warehouses and office premises and renewal of existing leases.

As at 31 December 2023, the Group closed certain retail outlets and early terminated the related leases amounted to RMB11,966,000 (2022: RMB11,140,000).

During the years ended 31 December 2023 and 2022, the Group has subleased part of the rented retail outlets, details are set out in note 31. The Group has classified the subleases as operating leases. During the years ended 31 December 2023, the Group recognised rental income from subleasing right-of-use assets of RMB12,566,000 (2022: RMB17,539,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

14. LEASES – CONTINUED

(ii) Lease liabilities

	RMB'000
Balance as at 1 January 2022	94,204
Additions	20,375
Interest expenses on lease liabilities	3,693
Payment for lease liabilities	(42,639)
Termination of leases	(12,542)
	<hr/>
Balance as at 31 December 2022 and 1 January 2023	63,091
Additions	48,162
Interest expenses on lease liabilities	3,955
Payment for lease liabilities	(32,906)
Termination of leases	(13,140)
	<hr/>
Balance as at 31 December 2023	69,162

	2023 RMB'000	2022 RMB'000
Within one year	24,336	23,008
After one year but within two years	24,366	15,266
After two years but within five years	18,149	22,545
After five years	2,311	2,272
	<hr/>	<hr/>
	69,162	63,091
Less: amount due for settlement within 12 months (shown under current liabilities)	(24,336)	(23,008)
	<hr/>	<hr/>
Amount due for settlement after 12 months	44,826	40,083
	<hr/> <hr/>	<hr/> <hr/>

During the year ended 31 December 2023, the Group entered into new leases of retail outlets, warehouses and office premises and renewed existing leases of RMB48,162,000 (2022: RMB20,375,000).

As at 31 December 2023, the Group closed certain retail outlets and early terminated the related leases amount to RMB13,140,000 (2022: RMB12,542,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

14. LEASES – CONTINUED

(iii) Amounts recognised in profit or loss

	2023 RMB'000	2022 RMB'000
Depreciation of right-of-use assets by class of underlying asset:		
Other properties leased for own use	30,395	36,844
Ownership interests in leasehold land	872	872
	<u>31,267</u>	<u>37,716</u>
Interest expenses on lease liabilities	3,955	3,693
Expenses relating to short-term leases	4,982	997
Gain on lease termination	1,174	1,402
	<u><u>1,174</u></u>	<u><u>1,402</u></u>

(iv) Others

During the year ended 31 December 2023, the total cash outflow for leases amount to RMB37,888,000 (2022: RMB43,636,000).

Restrictions or covenants on leases

As at 31 December 2023, lease liabilities of RMB69,162,000 are recognised with related right-of-use assets of RMB66,072,000 (2022: lease liabilities of RMB63,091,000 are recognised with related right-of-use assets of RMB60,271,000). The lease agreements do not impose any covenants other than security interests in the leased assets that are held by the lessors. Leased assets (excluding ownership interests on leasehold land) may not be used as security for borrowing purposes.

15. INVESTMENT PROPERTIES

	2023 RMB'000	2022 RMB'000
Balance as at 1 January	9,024	9,351
Depreciation	(327)	(327)
	<u>8,697</u>	<u>9,024</u>
Balance as at 31 December	8,697	9,024
Balance as at 31 December		
Cost	11,695	11,695
Accumulated depreciation	(2,998)	(2,671)
	<u>8,697</u>	<u>9,024</u>
Carrying values	<u><u>8,697</u></u>	<u><u>9,024</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

15. INVESTMENT PROPERTIES – CONTINUED

The above investment properties are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of term of the lease and 25 years
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As at 31 December 2023 and 2022, certain investment properties with carrying values of approximately RMB8,697,000 and RMB9,024,000 respectively have been pledged to the bank for banking facilities granted to the Group (see note 24).

The fair values of the Group's investment properties at 31 December 2023 and 2022 were approximately RMB39,586,000 and RMB40,445,000 respectively, were valued by 北京中企華資產評估有限責任公司, an independent valuer not connected to the Group. Details of the valuation techniques and assumptions set out below. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Fair value

The following table gives information about how the fair value of investment properties as at 31 December 2023 and 2022 was determined (in particular, the valuation techniques and inputs used), as well as the fair value hierarchy into which the fair value measurements were categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements was observable.

As at 31 December 2023

Nature	: Investment properties in the PRC
Fair value hierarchy	: Level 3
Valuation technique(s) and key input(s)	: Income approach with key inputs which are market unit rent and market yield

As at 31 December 2022

Nature	: Investment properties in the PRC
Fair value hierarchy	: Level 3
Valuation technique(s) and key input(s)	: Income approach with key inputs which are market unit rent and market yield

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

16. DEPOSITS PAID, PREPAYMENTS AND OTHER RECEIVABLES

	2023 RMB'000	2022 RMB'000
Rental deposits paid	7,651	9,982
Prepayments	34	37
Advances to suppliers	16,215	11,769
Deposits paid	285	285
Input value added tax receivables (Note a)	40,437	43,016
Interest receivables	103	232
Other receivables	13,830	13,549
	<u>78,555</u>	<u>78,870</u>
Less: allowance for impairment of other receivables	(1,510)	(1,648)
	<u>77,045</u>	<u>77,222</u>
Amounts classified as non-current assets	(6,304)	(9,982)
	<u>70,741</u>	<u>67,240</u>

Notes:

- (a) Input value added tax arose when the Group purchased products from suppliers and the input value added tax can be deducted from output value added tax on sales.
- (b) For the rental deposits paid, other deposits paid and other receivables, the directors of the Company considered the credit risk of the certain other receivables has been increased significantly and individually determined to be impaired after considering the overdue ageing analysis and other qualitative factors. As at 31 December 2023 and 31 December 2022, the impairment loss of RMB1,510,000 and RMB1,648,000 was recognised against other receivables.

The movements in the impairment allowance for other receivables during the years are as follows:

	RMB'000
At 1 January 2022	
Recognition of impairment losses	1,648
31 December 2022 and 1 January 2023	1,648
Reversal of impairment losses	(138)
	<u>1,510</u>
At 31 December 2023	<u>1,510</u>

17. INVENTORIES

	2023 RMB'000	2022 RMB'000
Merchandise for resale	<u>77,762</u>	<u>111,837</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

18. TRADE AND BILLS RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	37,975	29,268
Less: allowance for impairment of trade receivables	<u>(1,237)</u>	<u>(608)</u>
	36,738	28,660
Bills receivables	<u>233</u>	<u>84</u>
	<u><u>36,971</u></u>	<u><u>28,744</u></u>

As at 31 December 2023, the gross amount of trade and bills receivables arising from contracts with customers amounted to RMB37,557,000 (2022: RMB27,769,000).

All the bills receivables are aged within 90 days (2022: within 90 days).

All of the Group's sales are on cash basis except for the wholesale of goods, bulk sales of merchandise to corporate customers and rental income receivable from tenants. The average credit terms offered to these customers or tenants are generally for a period of 0-180 days from the invoice date. An aged analysis of the trade receivables, net of allowance for impairment of trade receivables, at the end of the respective reporting periods, based on the invoice date, is as follows:

	2023 RMB'000	2022 RMB'000
Within 30 days	17,833	12,204
31 to 60 days	8,086	11,853
61 to 180 days	1,575	2,429
181 to 365 days	8,503	1,697
Over 1 year	<u>741</u>	<u>477</u>
	<u><u>36,738</u></u>	<u><u>28,660</u></u>

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtors' current financial positions adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Due to the financial uncertainty arising from economic downturn, the Group has increased the expected loss rate for trade receivables in the current year as there is higher risk that an economic downturn could lead to increased credit default rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

18. TRADE AND BILLS RECEIVABLES – CONTINUED

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

As the trade receivables related to a number of customers with common risk characteristics and the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group recognises lifetime ECL for trade receivables based on past due status of customers collectively that are not individually significant as follows:

As at 31 December 2023	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Within 30 days	1.33	18,073	240
31 to 60 days	1.33	8,195	109
61 to 180 days	1.33	1,596	21
181 to 365 days	1.33	8,618	115
Over 1 year	50.37	1,493	752
		37,975	1,237
		37,975	1,237

As at 31 December 2022	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Within 30 days	0.77	12,299	95
31 to 60 days	0.77	11,945	92
61 to 180 days	0.77	2,448	19
181 to 365 days	0.77	1,710	13
Over 1 year	44.90	866	389
		29,268	608
		29,268	608

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

18. TRADE AND BILLS RECEIVABLES – CONTINUED

The movements in the allowance for impairment of trade receivables are set out below:

	RMB'000
At 1 January 2022	1,295
Reversal of impairment losses	<u>(687)</u>
At 31 December 2022	608
Impairment losses recognised	<u>629</u>
At 31 December 2023	<u>1,237</u>

The Group does not hold any collateral on the receivables.

There are no customers who represent more than 5% of the total trade receivable balance as at the end of the reporting periods. The concentration of credit risk is limited due to the customer base being large and unrelated.

19. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents denominated in RMB amounted to approximately RMB46,112,000 (2022: RMB43,188,000) at 31 December 2023. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks to conduct foreign exchange business.

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. Cash at banks earns interest at floating rates based on daily deposit rates.

Details of impairment assessment of bank balances are set out in note 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

20. TRADE PAYABLES

The Group normally obtains credit terms of 0-360 days from its suppliers.

An aged analysis of the trade payables at the end of the respective reporting periods, based on the invoice date, is as follows:

	2023 RMB'000	2022 RMB'000
Current to 30 days	34,168	37,504
31 to 60 days	15,128	30,275
61 to 180 days	12,113	14,250
181 to 365 days	8,506	5,274
Over 1 year	8,469	8,166
	<u>78,384</u>	<u>95,469</u>

21. DEPOSITS RECEIVED, RECEIPTS IN ADVANCE, ACCRUALS AND OTHER PAYABLES

	2023 RMB'000	2022 RMB'000
Rental deposits received and other refundable deposits received	10,526	13,092
Rental income received in advance	123	168
Non-income tax payables	838	914
Accruals and other payables	14,413	14,470
	<u>25,900</u>	<u>28,644</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

22. CONTRACT LIABILITIES

	2023 RMB'000	2022 RMB'000
Advances received to deliver goods	12,983	17,372
Unredeemed balance of award credits	639	460
	<u>13,622</u>	<u>17,832</u>

As at 1 January 2022, contract liabilities amounted to RMB18,634,000.

Payments received in advance that are related to sales of goods not yet delivered to customers are deferred and recognised as contract liabilities. Revenue is recognised when goods are delivered to customers. The Group receives deposits on acceptance of orders on a case by case basis with customers before delivery commences.

Unredeemed balance of award credits are related to a customer loyalty incentive program based on relative standalone selling price. The amount is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

The changes in contract liabilities in 2023 was mainly due to less sales orders received from bulk sales retailers and wholesalers near the end of the reporting period.

Revenue recognised during the year ended 31 December 2023 that was included in the contract liabilities at the beginning of the year is RMB17,372,000 (2022: RMB17,821,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

23. AMOUNTS DUE FROM RELATED COMPANIES

The amounts due from related companies are as follows:

Name of related party	Relationship	2023 RMB'000	2022 RMB'000
寶雞商場有限公司	A fellow subsidiary of a holding company	190	307
海南供銷大集酷鋪商貿有限公司	A fellow subsidiary of a holding company	82	133
海南供銷大集數字科技產業有限公司	A fellow subsidiary of a holding company	1	–
供銷大集集團股份有限公司	An intermediate holding company	4	–
		<u>277</u>	<u>440</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

23. AMOUNTS DUE FROM RELATED COMPANIES – CONTINUED

As at 31 December 2023 and 2022, the amounts due from related companies are trade-related, unsecured, interest-free and repayable on demand.

Included in the carrying amount of amounts due from related companies as at 31 December 2023 is accumulated impairment loss of RMB370,000 (31 December 2022: 202,000).

The Group measures the loss allowance for amounts due from related companies at an amount equal to lifetime ECL. The Group considers the days past due of amounts due from related companies to measure the ECL. The Group also considers the historical loss rates in prior years and adjusts for forward looking macroeconomic data in calculating the expected credit loss rates.

An analysis of the gross amount of amounts due from related companies are as follows:

	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
As at 31 December 2023			
Within 3 months			
海南供銷大集數字科技產業有限公司	1.33	1	–
供銷大集集團股份有限公司	1.33	4	–
Over 1 year			
寶雞商場有限公司	57.69	448	258
海南供銷大集酷鋪商貿有限公司	57.69	194	112
		<u>647</u>	<u>370</u>
As at 31 December 2022			
Over 1 year			
寶雞商場有限公司	31.47	448	141
海南供銷大集酷鋪商貿有限公司	31.47	194	61
		<u>642</u>	<u>202</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

23. AMOUNTS DUE FROM RELATED COMPANIES – CONTINUED

The movements in the impairment allowance for the amounts due from related companies during the year are as follows:

	RMB'000
At 1 January 2022	–
Impairment losses recognised	<u>202</u>
At 31 December 2022 and 1 January	202
Impairment losses recognised	<u>168</u>
At 31 December 2023	<u>370</u>

24. BANK BORROWINGS

	2023 RMB'000	2022 RMB'000
Secured bank borrowings classified as current liabilities	<u>28,000</u>	<u>8,000</u>
Carrying amount of bank borrowings that contain a repayable on demand clause but repayable:*		
Within one year	<u>28,000</u>	<u>8,000</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2023, the bank borrowings were denominated in RMB, bore interest at fixed rate of 3.95% (2022: 4.90%) per annum.

The Group's interest-bearing bank borrowings are secured by:

- (i) the pledge of certain buildings of the Group with carrying values of approximately RMB10,985,000 and RMB10,480,000 as at 31 December 2023 and 2022 respectively (see note 13);
- (ii) the pledge of certain right-of-use assets of the Group with carrying values of approximately RMB19,232,000 and RMB19,243,000 as at 31 December 2023 and 2022 respectively (see note 14);
- (iii) the pledge of investment properties of the Group with carrying values of approximately RMB8,697,000 and RMB9,024,000 as at 31 December 2023 and 2022 respectively (see note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

25. DEFERRED TAX ASSETS

The following is the analysis of the deferred tax asset (liabilities), after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity, for financial reporting purposes:

	2023 RMB'000	2022 RMB'000
Deferred tax assets	<u>772</u>	<u>–</u>

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Right-of-use assets RMB'000	Lease liabilities RMB'000	Total RMB'000
As at 31 December 2022	–	–	–
Effect of adoption of amendments to IAS12	<u>(15,752)</u>	<u>15,752</u>	<u>–</u>
As 1 January 2023	(15,752)	15,752	–
Credit (charge) to profit or loss	<u>(756)</u>	<u>1,528</u>	<u>772</u>
As at 31 December 2023	<u>(16,508)</u>	<u>17,280</u>	<u>772</u>

As at 31 December 2023, no deferred tax liabilities have been recognised in respect of the temporary differences of approximately RMB12,676,000 (2022: RMB35,464,000) associated with undistributed earnings of certain subsidiaries established and operating in the PRC because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at 31 December 2023, the Group has unused estimated tax losses of approximately RMB80,497,000 (2022: RMB62,461,000), RMB18,820,000 (2022: RMB17,416,000) and RMB10,026,000 (2022: RMB9,992,000) for certain subsidiaries in the PRC, Hong Kong and Macau respectively. The tax losses incurred by the subsidiaries incorporated in the PRC (except for HNTE) and Macau will expire in five years and three years respectively from the year in which the loss is originated, while the losses incurred by the subsidiaries in Hong Kong will not expire under current tax legislation in Hong Kong. With effective from 1 January 2018, the losses incurred by HNTE will expire in ten years from the year in which the loss is originated. No deferred tax asset had been recognised as at 31 December 2023 and 2022 in respect of the estimated tax losses due to the unpredictability of future profit streams.

As at 31 December 2023, the Group has deductible temporary differences of approximately RMB431,000 (2022: RMB1,090,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

26. SHARE CAPITAL

	2023		2022	
	Number of shares	RMB'000	Number of shares	RMB'000
Ordinary share of HK\$0.01 each				
Authorised:				
At 1 January and 31 December	<u>2,000,000,000</u>	<u>15,826</u>	<u>2,000,000,000</u>	<u>15,826</u>
Issued and fully paid:				
At 1 January and 31 December	<u>290,457,000</u>	<u>2,387</u>	<u>290,457,000</u>	<u>2,387</u>

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2023 RMB'000	2022 RMB'000
Non-current asset			
Investments in subsidiaries		<u>33,498</u>	<u>33,498</u>
Current assets			
Amounts due from subsidiaries	(a)	67,253	128,489
Deposits paid, prepayments and other receivables		18	132
Cash and cash equivalents		<u>937</u>	<u>4,224</u>
		<u>68,208</u>	<u>132,845</u>
Current liability			
Other payables		<u>414</u>	<u>325</u>
Net current assets		<u>67,794</u>	<u>132,520</u>
		<u>101,292</u>	<u>166,018</u>
Capital and reserves			
Share capital		2,387	2,387
Reserves	(b)	<u>98,905</u>	<u>163,631</u>
		<u>101,292</u>	<u>166,018</u>

Notes:

- (a) The amounts are unsecured, interest-free and repayable on demand. During the years ended 31 December 2023 and 2022, the directors of the Company have performed an impairment assessment based on the expected credit loss model. Impairment loss of RMB64,256,000 (2022: no impairment loss) was recognised during the year ended 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

27. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – CONTINUED

Notes: – Continued

(b) The movement of reserves is shown as follows:

	Share premium RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2022	169,904	2,510	(20,660)	151,754
Loss for the year	–	–	(2,262)	(2,262)
Other comprehensive income for the year				
Exchange differences arising on translation of financial statements from functional currency to presentation currency	–	14,139	–	14,139
Total comprehensive income (expense) for the year	–	14,139	(2,262)	11,877
Balance at 31 December 2022 and 1 January 2023	169,904	16,649	(22,922)	163,631
Loss for the year	–	–	(66,595)	(66,595)
Other comprehensive income for the year				
Exchange differences arising on translation of financial statements from functional currency to presentation currency	–	1,869	–	1,869
Total comprehensive income (expense) for the year	–	1,869	(66,595)	(64,726)
Balance at 31 December 2023	169,904	18,518	(89,517)	(98,905)

28. 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 consolidated statement of cash flows as cash flows from financing activities.

	1 January 2023	Financing cash flows	Accrued interest	Non-cash items		31 December 2023
				Additions (note 14)	Termination of leases (note 14)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities						
Bank borrowings	8,000	19,551	449	–	–	28,000
Lease liabilities	63,091	(32,906)	3,955	48,162	(13,140)	69,162

	1 January 2022	Financing cash flows	Accrued interest	Non-cash items		31 December 2022
				Additions (note 14)	Termination of leases (note 14)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Liabilities						
Bank borrowings	60,000	(52,948)	948	–	–	8,000
Lease liabilities	94,204	(42,639)	3,693	20,375	(12,542)	63,091

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

29. RELATED PARTY TRANSACTIONS

- (i) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following material transactions with related parties during the year:

		2023 RMB'000	2022 RMB'000
Related party relationship	Nature of transaction		
Related companies	Sales of goods (<i>Notes a and c</i>)	34	–
Related companies	Purchase of goods (<i>Notes b and c</i>)	15	–
		<u>34</u>	<u>–</u>

- (a) The consideration of sale transactions are based on (i) historical transaction prices and amount; (ii) prevailing market prices; and (iii) discount rate offered to bulk purchase customers. The credit period for sales to related parties are within 90 days.
- (b) The consideration of purchase transaction are based on (i) historical transaction prices and amount; (ii) prevailing market prices, and (iii) discount rate offered from seller. The credit period for purchase from related parties are within 90 days.
- (c) The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the “Report of the Directors” section to the annual report.
- (ii) Compensation of key management personnel of the Group, including directors’ remuneration as disclosed in note 9 to the consolidated financial statements, is as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	2,679	2,400
Pension scheme contributions	15	15
	<u>2,694</u>	<u>2,415</u>

30. MAJOR NON-CASH TRANSACTION

Please refer to note 14 to the consolidated financial statements for the lease transactions of the Group. Other than these transactions, there are no other major non-cash transactions.

31. OPERATING LEASE ARRANGEMENTS

The Group as a lessor

The Group sub-leases certain areas inside their retail outlets and leases out its investment properties. The leases are negotiated for terms ranging from 1 to 10 years. None of the lease includes contingent rentals.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2023 RMB'000	2022 RMB'000
Within one year	15,767	17,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

32. RETIREMENT BENEFIT SCHEME CONTRIBUTIONS

(a) The PRC

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the “Scheme”) organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Scheme based on certain percentages of the eligible employee’s salaries. The local government authority is responsible for the entire pension obligations payable to the retired employees.

(b) Hong Kong

The Group also maintains the MPF Scheme for all qualifying employees in Hong Kong in accordance with the requirements of the Mandatory Provident Fund Schemes Ordinance and related regulations. The assets of the schemes 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, of which the contribution was matched by employees and subject to a cap of HK\$1,500 per employee.

The Group has no other obligations for payment of retirement and other post-retirement benefits of employees other than the contribution described above.

The total expense recognised in profit or loss of approximately RMB8,407,000 (2022: RMB7,660,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

33. SHARE OPTION SCHEME

A share option scheme (the “Share Option Scheme”) adopted by the Company was approved by the shareholders on 19 August 2015.

A summary of the Share Option Scheme is set out below:

The Share Option Scheme became effective for a period of 10 years commencing on 19 August 2015. Under the Share Option Scheme, the directors of the Company shall, in its absolute discretion select and make an offer to any eligible participants to subscribe for share of the Company at a subscription price being not less than the highest of (i) the official closing price of shares as stated in the Stock Exchange’s daily quotation sheets on the date grant; (ii) the average of the official closing prices of the shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The period during which an option may be exercised will be determined by the board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the total number of shares immediately following the completion of global offering (excluding the shares issued upon the partial exercise of the over-allotment option relating to the global offering), being 28,647,700 shares.

No share options were granted under the Share Option Scheme during both years. As at 31 December 2023 and 2022, there were no outstanding options granted under the Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

34. INVESTMENTS IN SUBSIDIARIES

Details of the major subsidiaries are as follow:

Company name	Place of incorporation/ establishment	Particulars of issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company indirectly	Principal activities
Subsidiaries				
佛山市順德區昌萬隆複合材料有限公司*	The PRC	Paid up capital of HK\$85,500,000	100	Wholesale of good in the PRC
廣東省順客隆商業連鎖有限公司#	The PRC	Paid up capital of RMB50,000,000	100	Operation and management of retail stores and wholesale in the PRC
珠海市順客隆商業有限公司#	The PRC	Paid up capital of RMB1,000,000	100	Operation and management of retail stores in the PRC
肇慶順客隆商業連鎖有限公司#	The PRC	Paid up capital of RMB10,000,000	100	Operation and management of retail stores in the PRC
廣州市順客隆超市有限公司#	The PRC	Paid up capital of RMB1,000,000	70	Operation and management of retail stores in the PRC
廣東省譽邦行貿易有限公司#	The PRC	Paid up capital of RMB500,000	100	Wholesale of good in the PRC
肇慶市高要區樂通貿易有限公司#	The PRC	Paid up capital of RMB1,000,000	100	Wholesale of good in the PRC
佛山市順德區名建貿易有限公司#	The PRC	Paid up capital of RMB6,000,000	100	Operation and management of retail stores in the PRC
佛山市順德區澳中貿易有限公司#	The PRC	Paid up capital of HK\$1,000,000	100	Operation and management of retail stores in the PRC
Macau Son Hak Long International Sociedade Unipessoal Limitada	Macau	MOP38,625,000	100	Operation and management of retail stores in Macau
Usmart Chain Supermarket Company Limited	Macau	MOP38,657,000	100	Operation and management of retail stores in Macau

* registered as wholly-foreign owned enterprises under the PRC law

registered as a limited liability company under the PRC law

None of the subsidiaries had any debt securities outstanding at the end of both reporting periods or at any time during the years ended 31 December 2023 and 2022.

No subsidiary has non-controlling interest material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

35. CAPITAL RISK MANAGEMENT

The capital structure of the Group consists of debts, which include the bank borrowings disclosed in note 24 and equity attributable to owners of the Company, comprising share capital as disclosed in note 26 and reserves as disclosed in the consolidated statement of changes in equity. The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

	2023 RMB'000	2022 RMB'000
Debt	28,000	8,000
Equity	149,181	175,596
Debt to equity ratio	19%	5%

36. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2023 RMB'000	2022 RMB'000
Financial assets		
At amortised cost (including bank balances and cash)	106,290	100,556

	2023 RMB'000	2022 RMB'000
Financial liabilities		
At amortised cost	129,678	129,837

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits paid and other receivables, cash and cash equivalents, amounts due from related companies, trade payables, deposits received, other payables and bank borrowings.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (currency risk and interest rate risk). As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of the directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

36. FINANCIAL INSTRUMENTS – CONTINUED

(b) Financial risk management objectives and policies – continued

Credit risk

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. As at 31 December 2023 and 2022, the Group's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of the Group mainly arises from trade and bills receivables, deposits paid and other receivables, cash and cash equivalents and amounts due from related companies. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group 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.

For trade receivables and amounts due from related companies, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance for impairment at lifetime ECL. The Group determines the ECL on these items collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industries in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Management considered that the bills receivables to be low credit risk when there is no information indicating that these balances had a significant increase in credit risk since initial recognition and thus the allowance for impairment recognised during the year was limited to 12-month ECL. For the years ended 31 December 2023 and 2022, the identified impairment loss was not significant.

The Group has applied ECL model on deposits paid and other receivables in which the impairment assessment for those receivables with gross carrying amount of approximately RMB12,423,000 (2022: RMB12,133,000) where there has not been a significant change in credit risk are based on 12-month ECL. For the remaining amount of RMB1,510,000 (2022: RMB1,648,000), management considered that the credit risks increased significantly and individually determined to be impaired after considering the overdue ageing analysis and other qualitative factors, they are assessed based on lifetime ECL, the reversal of impairment due to the repayment from receivables previously impaired.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

36. FINANCIAL INSTRUMENTS – CONTINUED

(b) Financial risk management objectives and policies – continued

Credit risk – continued

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors in the Group and changes in the operating results of the debtors.

The Group's exposure to credit risk

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

36. FINANCIAL INSTRUMENTS – CONTINUED

(b) Financial risk management objectives and policies – continued

Credit risk – continued

The Group's exposure to credit risk – continued

The table below details the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades.

	Notes	Internal credit rating	12-month or lifetime ECL	2023			2022		
				Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Trade receivables	18	Note	Lifetime ECL (simplified approach)	37,975	(1,237)	(36,738)	29,268	(608)	28,660
Bills receivables	18	Performing	12-month ECL	233	-	233	84	-	84
Rental deposits and other deposits paid	16	Performing	12-month ECL	7,936	-	7,936	10,267	-	10,267
Other receivables and interest receivables	16	Performing	12-month ECL	12,423	-	12,423	12,133	-	12,133
	16	Doubtful	Lifetime ECL-Not credit impaired	1,510	(1,510)	-	1,648	(1,648)	-
Amounts due from related companies	23	Note	Lifetime ECL (simplified approach)	647	(370)	277	642	(202)	440
Cash and cash equivalents	19	Performing	12-month ECL	48,683	-	48,683	48,972	-	48,972
				<u>109,407</u>	<u>(3,117)</u>	<u>106,290</u>	<u>103,014</u>	<u>(2,458)</u>	<u>100,556</u>

Note: The Group has applied simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100% (2022: 100%) of the total trade receivables as at 31 December 2023.

None of the Group's financial assets are secured by collateral or other credit enhancement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

36. FINANCIAL INSTRUMENTS – CONTINUED

(b) Financial risk management objectives and policies – continued

Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations and also in respect of its cash flow management.

The Group's policy is to maintain sufficient cash and bank balances and has available funding to meet its working capital requirements. The Group's liquidity is dependent upon the cash received from its customers. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future.

The liquidity policies have been followed by the Group since prior years and are considered to have been effective in managing liquidity risks.

The following tables details the Group's remaining contractual maturities for its non-derivative financial liabilities at the end of the reporting period. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables below include both interest and principal cash flows.

	Due on demand or within one year RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flows RMB'000	Carrying amount RMB'000
31 December 2023					
Trade payables	78,384	–	–	78,384	78,384
Deposits received, accruals and other payables	23,294	–	–	23,294	23,294
Bank borrowings	28,000	–	–	28,000	28,000
	<u>129,678</u>	<u>–</u>	<u>–</u>	<u>129,678</u>	<u>129,678</u>
Lease liabilities	<u>27,113</u>	<u>45,109</u>	<u>2,488</u>	<u>74,710</u>	<u>69,162</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

36. FINANCIAL INSTRUMENTS – CONTINUED

(b) Financial risk management objectives and policies – continued

Liquidity risk – continued

	Due on demand or within one year RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flows RMB'000	Carrying amount RMB'000
31 December 2022					
Trade payables	95,469	–	–	95,469	95,469
Deposits received, accruals and other payables	26,368	–	–	26,368	26,368
Bank borrowings	8,000	–	–	8,000	8,000
	<u>129,837</u>	<u>–</u>	<u>–</u>	<u>129,837</u>	<u>129,837</u>
Lease liabilities	<u>29,779</u>	<u>40,886</u>	<u>2,392</u>	<u>73,057</u>	<u>63,091</u>

Bank borrowings with a repayment on demand clause is included in the “repayable on demand or within one year” time band in the above maturity analysis. At 31 December 2023, the aggregate carrying amount of these bank borrowings amounted to approximately RMB28,000,000 (2022: RMB8,000,000). Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the bank will exercise their discretionary right to demand immediate repayment. The directors of the Company believe that such bank borrowings of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the bank borrowing agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

36. FINANCIAL INSTRUMENTS – CONTINUED

(b) Financial risk management objectives and policies – continued

Liquidity risk – continued

For the purpose of managing liquidity risk, the directors of the Company reviews the expected cash flows information of the Group's bank borrowings based on the scheduled repayment dates set out in the bank borrowing agreements as set out in the table below:

	Due on demand or within one year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
31 December 2023	28,797	28,797	28,000
31 December 2022	8,298	8,298	8,000

Market risk

Currency risk

Certain bank balances are denominated in currencies other than the functional currencies of the entities to which they relate. The Group currently does not have a foreign currency hedging policy. Management monitors foreign exchange exposure and will consider hedging foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currencies denominated monetary assets at the end of the reporting period are as follows.

	2023 RMB'000	2022 RMB'000
HK\$	1,470	1,102
RMB	396	386
	<u>1,866</u>	<u>1,488</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

36. FINANCIAL INSTRUMENTS – CONTINUED

(b) Financial risk management objectives and policies – continued

Market risk – continued

Currency risk – continued

Sensitivity analysis

The Group is mainly exposed to the currency of HK\$ and RMB.

The following table details the Group's sensitivity to a 5% (2022: 5%) increase and decrease in exchange rates of the relevant foreign currencies against the respective entity's functional currency. 5% (2022: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the end of reporting period for a 5% (2022: 5%) change in foreign currency rates. A positive number below indicates a decrease/an increase in post-tax loss where the respective functional currencies of the reporting entity weaken 5% (2022: 5%) against the relevant foreign currencies. For a 5% (2022: 5%) strengthening of the respective functional currencies against the relevant foreign currencies, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	HK\$		RMB	
	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000
Profit or loss	<u>65</u>	<u>48</u>	<u>17</u>	<u>17</u>

Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate interest bearing receivables, including deposit with a bank and bank balances.

The Group's fair value interest rate risk relates primarily to its fixed-rate bank balances and bank borrowings.

The Group currently does not have an interest rate hedging policy in relation to fair value interest rate risk and cash flow interest rate risk. However, management of the Group monitors interest rate exposure on an on-going basis and will consider hedging significant interest rate exposure should the need arise.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

36. FINANCIAL INSTRUMENTS – CONTINUED

(b) Financial risk management objectives and policies – continued

Market risk – continued

Sensitivity analysis

It is estimated that a general increase or decrease of 5 basis point in 2023 in interest rates for floating rate assets, with all other variables held constant, would decrease or increase the Group's loss for the year by approximately RMB17,000 (2022: RMB16,000) for the year ended 31 December 2023.

There is no impact on other components of equity.

The sensitivity analysis above has been determined assuming that the change in interest rate had occurred at the reporting date and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 5 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for the years ended 31 December 2023 and 2022.

(c) Fair value measurements of financial instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate to their fair values.

37. EVENT AFTER THE REPORTING PERIOD

On 3 January 2024, CCOOP Group Co., Ltd. ("CCOOP Group"), the controlling shareholder of the Company, signed an investment agreement (the "Investment Agreement") with China Supply and Trade Group Co., Ltd* (中國供銷商貿流通集團有限公司) ("China Supply"), Beijing Zhong He Nong Xin Enterprises Management Limited* (北京中合農信企業管理諮詢有限公司) ("Zhong He Nong Xin") and Zhong He Lian Investment Limited* 中合聯投資有限公司 ("Zhong He Lian", collectively with China Supply and Zhong He Nong Xin, the "Industrial Investors").

New Cooperation Trade Chain Group Co., Ltd. (新合作商貿連鎖集團有限公司) ("New Cooperation"), together with its parties acting in concert currently hold 7.72% equity interests in CCOOP Group, New Cooperation and each of the Industrial Investors are controlled by All China Federation of Supply and Marketing Cooperatives (中華全國供銷合作總社) ("ACFSMC"). New Cooperation and the Industrial Investors are parties acting in concert. Upon completion of the Investment Agreement, the Industrial Investors, New Cooperation and its parties acting in concert together will hold 21.28% equity interest in CCOOP Group. As China Supply, Zhong He Lian and New Cooperation intend to entrust their voting rights in the shares of CCOOP Group to Zhong He Nong Xin, upon completion of the Investment Agreement, the controlling shareholder of CCOOP Group will be changed to Zhong He Nong Xin and the actual controller of CCOOP Group will be changed to ACFSMC. Assuming there are no other changes to the shareholding structure of the Company, upon completion of the Investment Agreement, CCOOP Group will remain as the controlling shareholder of the Company holding approximately 70.42% of the total issued shares of the Company. Details are set out in the Company's announcements dated 4 January 2024, 19 January 2024, 6 March 2024, 18 March 2024 and 22 March 2024.