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PACIFIC LEGEND GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8547)

ANNOUNCEMENT OF THE AUDITED CONSOLIDATED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

The Board of Directors (the “**Board**”) of Pacific Legend Group Limited (the “**Company**”) is pleased to announce the audited annual results of the Company and its subsidiaries for the year ended 31 December 2022. This announcement, containing the full text of the 2022 annual report of the Company, complies with the relevant requirements of The Rules Governing the Listing of Securities on GEM of The Stock Exchange (the “**GEM Listing Rules**”) in relation to information to accompany preliminary announcement of the annual results. The Company’s 2022 annual report will be available for viewing on the websites of the Stock Exchange at www.hkexnews.hk and of the Company at www.pacificlegendgroup.com on 30 March 2023, and the printed version of the Company’s 2022 annual report will be despatched to the shareholders of the Company as soon as reasonably practicable after publishing on such websites.

By order of the Board
Pacific Legend Group Limited
John Warren McLennan
*Executive Director, Chairman
and Chief Executive Officer*

Hong Kong, 30 March 2023

As at the date of this announcement, the Board comprises Mr. John Warren McLennan, Mr. So Kin Ting Wilson, Ms. Shawlain Ahmin, Ms. Wong Wing Man and Mr. Wong Ka Man as executive Directors; Mrs. Jennifer Carver McLennan as non-executive Director; and Mr. So Alan Wai Shing, Mr. Lee Kwong Ming, Mr. Lee Fung Lun, Mr. Tom Kuet Szutu and Mr. Kurt Kwai Ching Mak as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement herein or this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the “Latest Listed Company Information” page of the website of the Stock Exchange at www.hkexnews.hk for at least seven days from the day of its posting. This announcement will also be published on the Company’s website at www.pacificlegendgroup.com.

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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

The original report is prepared in the English language. This report is translated into Chinese. In the event of any inconsistencies between the Chinese and the English versions, the latter shall prevail and it is available on the Company’s website at www.pacificlegendgroup.com.



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CORPORATE INFORMATION

DIRECTORS

Executive Directors:

John Warren MCLENNAN
(Chairman and Chief Executive Officer)

SO Kin Ting Wilson

Shawlain AHMIN

WONG Wing Man

WONG Ka Man

Non-Executive Director:

Jennifer Carver MCLENNAN

Independent Non-Executive Directors:

SO Alan Wai Shing

LEE Kwong Ming

LEE Fung Lun

Tom Kuet SZUTU

Kurt Kwai Ching MAK

COMPLIANCE OFFICER

John Warren MCLENNAN

AUTHORISED REPRESENTATIVES

John Warren MCLENNAN

WONG Ka Man

COMPANY SECRETARY

WONG Ka Man

AUDIT COMMITTEE

SO Alan Wai Shing (Chairman)

Tom Kuet SZUTU

Kurt Kwai Ching MAK

REMUNERATION COMMITTEE

Kurt Kwai Ching MAK (Chairman)

John Warren MCLENNAN

Tom Kuet SZUTU

SO Alan Wai Shing

NOMINATION COMMITTEE

Tom Kuet SZUTU (Chairman)

Kurt Kwai Ching MAK

SO Alan Wai Shing

AUDITOR

Baker Tilly Hong Kong Limited

LEGAL ADVISER AS TO HONG KONG LAW

Stevenson, Wong & Co.

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 1202-1204,
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100 Cyberport Road, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

CMB Wing Lung Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

INVESTOR RELATIONS CONTACT

Email: info@pacificlegendgroup.com

COMPANY WEBSITE

<http://www.pacificlegendgroup.com>

STOCK CODE

Hong Kong Stock Exchange (GEM): 8547

FINANCIAL HIGHLIGHTS

- The revenue of the Group amounted to approximately HK\$204.0 million for the year ended 31 December 2022, representing a decrease of approximately HK\$40.3 million or 16.5% as compared with the revenue of approximately HK\$244.3 million for the year ended 31 December 2021.
- The loss of the Group after tax was approximately HK\$47.9 million for the year ended 31 December 2022 including impairment losses on non-current assets of HK\$21.3 million, as compared to a loss of approximately HK\$28.2 million for the year ended 31 December 2021 (including impairment losses on non-current assets of approximately HK\$17.1 million).
- No final dividend is recommended by the Board for the year ended 31 December 2022.

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board of Directors (the “**Board**”), I am pleased to present the annual report of Pacific Legend Group Limited (the “**Company**”) and its subsidiaries (together with the Company (the “**Group**”) for the year ended 31 December 2022 (the “**Current Year**” or the “**Year**”).

2022 IN REVIEW

The general market conditions in 2022 was extremely challenging, in particular in Hong Kong and mainland China because of the outbreak of the Omicron variant of the COVID-19 in the first half of the Year as well as the social distancing measures which had caused a wave of expatriate departures and the property developers put the brakes on releasing residential flats for sale. Our retail business in Hong Kong also suffered from weak demand following the decline in the second-hand property market and by fierce price competition from other furniture retailers. As the Hong Kong SAR Government gradually relaxed such social distancing measures in the second half of the Year, there were signs of recovery in our show-flat sales and project businesses, but it was still not sufficient to cover the shortfall compared to last year. However, we have successfully launched a large volume furniture package for a new private housing estate developed by a leading property developer in Hong Kong, which is expected to deliver in mid-2023. We have also extended our online businesses to B2B model with the launch of our Indigo Trade website which offers our new and existing wholesale customers exclusive items such as accessories, wall art and cushions, from our vast library of Indigo products, as well as newly launched items offered in our retail channels.

We closed the only store in Shanghai during the Year but to maintain our presence in projects and distribution business in the PRC, we await opportunities of reopening new stores when Chinese economy recovers following the re-opening of borders to the world since January 2023.

Our retail and corporate sales business in Dubai, United Arab Emirates continued to grow with the opening of another new store in Dubai Hills Mall in the third quarter of 2022. On the other hand, even though the project revenue in Dubai decreased, it still managed to maintain a stable pipeline for the next two years.

CHAIRMAN'S STATEMENT (CONTINUED)

2023 – LOOKING TO THE FUTURE

Our mission for 2023 will remain the same — to enable our customers and their clients to ***Live Beautifully***.

As COVID-19 pandemic subsides and the borders of Hong Kong and China open in 2023, it is likely that Hong Kong economy and property market may gradually recover. Mainland Chinese buyers may resume coming to Hong Kong to acquire commercial and residential properties, and with the expected growth in economic activities, it is believed that there will be an increase in new and existing Hong Kong commercial and residential property owners or tenants seeking to decorate, refit or renovate their properties. Apart from working with the property developers and introducing more furniture packages for first-hand residential flats buyers, we also expect a potential growth in demand of project management services for interior design and renovation in the coming years. The Group shall seek and seize opportunities to further expand its projects business by way of organic growth of our existing projects team or acquisition of suitable project management company(ies) providing interior design and renovation services when the suitable opportunity arises. In February 2023 we have completed a placing of new shares, raising approximately HK\$13.4 million for such potential acquisition opportunities as well as the general working capital of the Group.

On the other hand, following the recent demographic changes in Hong Kong we shall conduct research and invest in products targeting local customers. We also look for business opportunities in Dubai and Shanghai, from opening new retail stores to corporate sales and furniture projects.

APPRECIATION

On behalf of the Board we would like to thank all the staff for their hard work and dedication during such hard times. We also thank our stakeholders, shareholders, suppliers and parties, for their trust, confidence and patience. Finally we would like to thank our customers for their continued support.

John Warren MCLENNAN

Chairman, Chief Executive Officer and Executive Director
Pacific Legend Group Limited

Hong Kong, 30 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

The Group principally operates three lines of business, namely, (i) sale of home furniture and accessories (“**Furniture Sales**”, which includes retail, corporate sales, online shops, wholesale and franchise); (ii) rental of home furniture and accessories (“**Furniture Rental**”); and (iii) project and hospitality services (“**Projects**”, which typically involve designing, styling, decorating and furnishing commercial or residential properties such as hotels, serviced apartments and showflats).

FINANCIAL REVIEW

Revenue

The Group’s revenue for the year ended 31 December 2022 (the “**Current Year**”) was approximately HK\$204.0 million, representing a decrease of approximately HK\$40.3 million or 16.5% as compared with the year ended 31 December 2021 (the “**Last Year**”) of approximately HK\$244.3 million.

The revenue from the Furniture Sales in the Current Year was HK\$148.2 million which was approximately 10.5% less than Last Year of approximately HK\$165.6 million.

In Hong Kong, the retail sales revenue in the Current Year dropped by approximately 19.1% compared to the Last Year. 2022 was one of the most challenging year of continuous adverse factors for Hong Kong furniture retail. The first three month of the Year was the fifth wave of COVID-19 which led to a standstill for all retail in the quarter. The fierce price competition from other furniture retailers and the departure of expatriates following the stringent COVID-19 lockdown measures had played a significant part of sales headwinds, affecting particularly on the stores in the mid-levels and prime central areas. The second half of the year also noted a sharp decline of the Hong Kong stock market, and in turn resulted in the fall in both price and volume of the second hand property transactions, driving less appetite of general furniture of the industry as a whole. The gradual loosening of border controls of the fourth quarter resulted in local customers increasing their spending on overseas travelling, but did not show the signs of returning of expatriates or visitors spending money in Hong Kong.

Following the demographic changes as a result of COVID-19, we have switched our strategy to increase marketing exposure to locals with products ranges dedicated to them. Despite the adverse retail market conditions our local sales mix as well as net sales values have continued to grow, in particular our store in Shatin HomeSquare with significant local customer base in Kowloon and the New Territories.

The revenue of the retail stores in Dubai, the United Arab Emirates (the “**UAE**”) in the Current Year has improved, with a 12.6% increase compared to the Last Year. We have opened in September 2022 a new store in Dubai Hills Mall with approximately 5,500 square feet of retail spaces, which is well received by our customers. Its revenue contributed more than 30% of the UAE’s total retail revenue in the fourth quarter.

Revenue from our retail business in Shanghai significantly decreased in the Current Year as compared to the Last Year because of the closure of our An Fu Lu store in March 2022 and Jing An District store in May 2021. Both our distribution and retail businesses in Shanghai have been significantly impacted by the social distancing measures in Mainland China prevailing in the most of the Current Year. Following of the closure of these stores we have conducted a staff reorganisation and laid off most staff, and are waiting for future opportunities to open another new store when the economy and the market conditions improve.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Group's performance in online business in the Current Year declined by 29.0% compared to the Last Year. The decrease in the Group's online business was mainly attributable to the closure of two retail stores in Shanghai as mentioned above, which also significantly impacted our online business. The Group has launched its Indigo Trade website in September 2022 but its impact on online sales performance was minimal.

The Group's franchise business in Saudi Arabia recorded a growth of 6.0% in sales revenue, reflecting an increase in the demand of Indigo products in Saudi Arabia.

Our corporate sales in Hong Kong, which consists mainly of the sales of showflats furniture to property developers, noted a decrease in revenue of 9.6% in the Current Year. The business suffered a slow start as a result of the lockdown measures during the fifth wave of COVID-19 pandemic, which has stalled the property developers from releasing showflats in the first half of the Current Year. As such lockdown measures have gradually been unwound in the second half of the Current Year, the property developers recommenced their plans to release residential flats for sale, with more showflats contracts and enquiries in the third and fourth quarter the revenue has gradually picked up and the shortfall compared to the Last Year has been narrowed. On the other hand, our corporate sales revenue in the UAE has significantly improved in the Current Year by 28.5% compared to the Last Year. The growth was mainly attributable to the increased digital and direct marketing towards its target customers with improvement of availability levels of Indigo Living products dedicated to this market.

The revenue from the Furniture Rental increased by approximately 10.9% from approximately HK\$18.6 million in the Last Year to approximately HK\$20.6 million in the Current Year. The increase was mainly attributable to our UAE team who has extended our Furniture Rental business to embassies and high-value B2C customers.

Revenue from the Projects business decreased by approximately 41.5% from approximately HK\$60.1 million in the Last Year to approximately HK\$35.2 million in the Current Year. The decrease was mainly because the fifth wave of COVID-19 pandemic has stalled the progress of our existing projects in the first half of the Current Year. However, following the gradual relaxing of the lockdown measures, several projects in Hong Kong have recommenced in the second half of 2022. We also have a strong pipeline which is only expected to materialise in 2023 or after. Our UAE team was awarded a significant multi-year furniture supply project to a local conglomerate for 3 years starting from 2022.

Gross profit

The gross profit margins for our three lines of business varied principally as a result of the composition of the revenues of our Furniture Sales, Furniture Rental and Projects businesses, changing conditions of the markets and their effects on product pricing, product mix and our cost of sales. Generally the gross profit margins of our Furniture Sales (except franchise) and Furniture Rental businesses are higher than the gross profit margin of the Projects business due to the provision of design and styling and custom furniture in the latter.

The gross profit of the Group decreased by approximately HK\$24.7 million or 18.8% from approximately HK\$131.1 million in the Last Year to approximately HK\$106.4 million in the Current Year which has taken into account inventory provision of HK\$3.6 million (Last Year: reversal of such provision of HK\$0.8 million). As a result of such provision, the overall gross profit percentage has slightly decreased from 53.7% in the Last Year to 52.2% in the Current Year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Other income and gains

Other income and gains in the Current Year amounted to approximately HK\$9.8 million compared to approximately HK\$6.8 million in Last Year. The increase was mainly attributable to the reversal of over provision of reinstatement costs of the Group's leased premises upon the expiry of lease agreement.

Selling and distribution costs

Our selling and distribution costs comprise mainly staff cost of our sales teams, staff commission, advertising and promotion, transportation and delivery costs, credit card commission, agency fees and others. The Group's selling and distribution costs increased by approximately 6.2% from approximately HK\$44.7 million in the Last Year to approximately HK\$47.4 million in the Current Year. This increase of HK\$2.8 million was mainly the result of a significant agency commission of approximately HK\$2.4 million for the referral of corporate sales customers in the UAE.

Administrative and other operating expenses

Our administrative and other operating expenses comprise mainly staff cost (other than the sales teams), rental and related expenses, depreciation on property, plant and equipment (other than those relating to the furniture for rental), amortisation of intangible assets, staff benefits and others. Such expenses decreased by approximately 14.8% from approximately HK\$102.2 million in the Last Year to approximately HK\$87.1 million in the Current Year. Such decrease is mainly the result of (i) the full year impact on the reduction in staff costs following the staff reorganisation in Hong Kong office since June 2021, (ii) the decrease in certain legal and professional fees; and (iii) the reduction of rental expenses (including the depreciation of rights-of-use assets) as a result of closure of certain stores in Hong Kong and Shanghai. The removal of Hong Kong and Dubai fixed lease to subcontracted ones with variable costs based on usage also contributed further savings to the Group.

Impairment losses

Same as the Last Year, the Group's management identified certain retail stores and business units which under-performed and estimated the recoverable amounts of non-current assets (namely right-of-use assets, intangible assets and property, plant and equipment) attributable or allocated to these stores and business units based on their values-in-use as calculated in accordance with Hong Kong Accounting Standard No. 36 "Impairment of Assets" and compared to the carrying value of such assets. The impairment loss of these assets for the Current Year amounted to HK\$21.3 million (Last Year: HK\$17.1 million).

A net provision of HK\$7.3 million of expected credit loss has been provided in the Current Year (Last Year: HK\$1.4 million) in respect of certain monetary assets.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance costs

The Group's finance costs consisted of (i) bank interest expenses on bank loans and import loan financing of approximately HK\$343,000 in the Current Year (Last Year: HK\$69,000); and (ii) Interest expenses of HK\$731,000 (Last Year: HK\$724,000) on the lease liabilities in respect of the tenancies of certain premises, which the Group has entered into as a lessee.

Loss for the year

The Group's loss for the Current Year amounted to approximately HK\$47.9 million (Last Year: loss of approximately HK\$28.2 million). The increase in loss was mainly attributable to (i) the fall in gross profit of HK\$24.7 million as a result of decline in turnover, (ii) increase in selling and distribution costs of HK\$2.8 million as mentioned above, (iii) increase in impairment losses on non-current assets of HK\$4.2 million, and (iv) net increase in provision of expected credit loss on monetary assets of HK\$5.9 million, net of the favourable impact from the savings of administrative and other operating expenses of HK\$15.2 million and the increase in net other income, gains and losses of HK\$3.0 million.

TRADE AND OTHER RECEIVABLES

The Group's trade and other receivables as at 31 December 2022 amounted to HK\$48.6 million (31 December 2021: HK\$54.9 million), which consists of the following:

- a) Trade receivables of HK\$16.4 million (31 December 2021: HK\$14.5 million), net of expected credit loss allowance of HK\$3.5 million (31 December 2021: HK\$0.7 million). The increase is attributable to new trade receivables arising from Dubai project sales revenue recognised at year end amounted to HK\$2.5 million;
- b) Trade deposits of HK\$11.8 million (31 December 2021: HK\$13.6 million) paid to the Group's suppliers before receipts of the inventories purchased. The balances of such trade deposits at any given point of time depend on the progress of the corporate sales and projects (which in turn affects the timing of the purchases of items in respect of such projects) and also the timing of the purchases for seasonal launches and replenishments;
- c) Rental and other deposits of HK\$7.0 million (31 December 2021: HK\$8.5 million). The decrease was mainly attributable to the release of rental deposit of HK\$3.2 million in respect of warehouse in Kwai Chung, the leases of which expired during the Current Year offset by the impact of the rental deposit of new lease in connection with a new store in Dubai Hills Mall of HK\$0.7 million and the deposit paid to the new warehouse service provider in Kwai Chung of HK\$1.2 million; and
- d) Prepayments and other receivables totalling HK\$13.4 million (2021: HK\$18.3 million), the decrease was mainly attributable to the utilisation of such prepayment of Shanghai projects and increase in expected credit loss allowance in respect of certain other receivables.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

TRADE AND OTHER PAYABLES

The Group's trade and other payables as at 31 December 2022 amounted to HK\$17.6 million (31 December 2021: HK\$19.8 million), which consists of the following:

- a) Trade payables to suppliers of HK\$2.6 million (31 December 2021: HK\$4.5 million). The decrease was in line with the decline in purchases in the Current Year;
- b) Deposits received from customers of HK\$3.2 million (31 December 2021: HK\$3.5 million);
- c) Other payables of HK\$2.8 million (31 December 2021: HK\$3.4 million), mainly represent credit notes issued, accrued project costs and purchases; and
- d) Accruals of HK\$9.0 million (31 December 2021: HK\$8.5 million) which consists of staff costs (mainly commission accruals and bonus provision) and accruals of certain expenses of the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

We have funded our operations primarily through net cash flow generated from our operations. Our primary uses of cash have been, and are expected to continue to be, operational costs and capital expenditures for business expansion. We also use our import financing facilities as well as the additional funds from the proceeds of the Listing for implementing our plans and purposes as detailed in the paragraph headed "Use of Proceeds from the Listing" below.

The Group had cash and cash equivalents of approximately HK\$17.8 million as at 31 December 2022 (31 December 2021: HK\$33.4 million). Most of such cash and cash equivalents were denominated in the functional currencies of the countries/regions in which the Group's subsidiaries operate. As at 31 December 2022, the Group had total interest-bearing bank borrowings of approximately HK\$7.7 million (31 December 2021: HK\$0.9 million). All borrowings were denominated in Hong Kong Dollars ("**HKD**") and United Arab Emirates Dirham ("**AED**"), with fixed interest rate ranging from 4.89% to 10.00% at the inception of such borrowings. The details of the bank borrowings can be referenced to note 20 of the consolidated financial statements.

GEARING RATIO

The Group monitors capital using a gearing ratio, which is the Group's total debts (interest-bearing bank borrowings) over its total equity. The Group's policy is to keep the gearing ratio at a reasonable level.

The Group's gearing ratio as at 31 December 2022 was 19.2% (31 December 2021: 1.0%). The increase in the gearing ratio of the Group was mainly attributable to (i) a new bank loan raised by a subsidiary in the UAE of approximately HK\$5.7 million and (ii) decrease in total equity as a result of the significant loss attributable to owners of the Company for the Current Year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PLEDGE OF ASSETS

As at 31 December 2022 and 2021, a pledged bank deposit of HK\$3.0 million was applied as security for the general banking facilities granted to a subsidiary. These facilities were also secured by a corporate guarantee of HK\$3.0 million from the Company.

FOREIGN CURRENCY RISK

The Group's sales and direct costs were primarily denominated in the functional currency of the operations to which the transactions are related. The Group's several subsidiaries have trade and other receivables and cash and cash equivalents which are denominated in United States Dollars ("**USD**") and Great British Pound at the end of the reporting period. Further details of the foreign currency risk in respect of such balanced can be referred to note 26(d) of the consolidated financial statements.

CAPITAL AND OTHER COMMITMENTS

As at 31 December 2022, the Group did not have any significant capital commitments (31 December 2021: Nil). Other lease commitments have been disclosed in note 30 of the consolidated financial statements.

SIGNIFICANT INVESTMENT HELD

Apart from investments in subsidiaries, as at 31 December 2022 the Group also had investments in an unlisted fund and a non-refundable deposit of a proposed new joint venture. Further details can be referred to notes 14 and 17 of the consolidated financial statements respectively.

CONTINGENT LIABILITIES

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

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Listing (the "**Net Proceeds**") received by the Company after deducting the underwriting commissions and fees and other listing related expenses amounted to approximately HK\$48.5 million. As at 31 December 2021, the Company had utilised approximately HK\$24.8 million of the Net Proceeds and the amount of the unutilised Net Proceeds was approximately HK\$23.7 million (the "**Unutilised Net Proceeds**") and deposited into licensed banks in Hong Kong and Dubai.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Due to the generally volatile operating environment of the Group in face of the COVID-19 pandemic, the Net Proceeds were not fully utilised as at 31 December 2022. As disclosed in the Company's announcement dated 18 February 2022, having carefully considered the business environment and development needs of the Group, the Board had resolved to change the use of the Unutilised Net Proceeds.

The following table sets forth the status of the use of the Net Proceeds as at 31 December 2022:

	Allocation of the unutilised Net Proceeds as stated in the Company's announcement dated 18 February 2022	Utilised Net Proceeds up to 31 December 2022	Unutilised Net Proceeds as at 31 December 2022	Expected timeline for fully utilising the remaining Net Proceeds (taking into account of the new allocation)
	<i>HK\$'000</i> <i>(approximately)</i>	<i>HK\$'000</i> <i>(approximately)</i>	<i>HK\$'000</i> <i>(approximately)</i>	
Expand the Group's retail network by opening additional retail stores in Mainland China and UAE	12,284	4,151	8,133	End of December 2023
Expand the Group's retail network by opening additional retail stores in Hong Kong	2,000	855	1,145	End of December 2023 (Note)
Enhance the Group's online shop and the Group's information technology capability	3,000	1,790	1,210	End of December 2023
Recruitment for the Group's planned new retail stores in Mainland China and UAE	1,392	–	1,392	End of December 2023
General working capital	5,000	5,000	–	End of December 2023
	<u>23,676</u>	<u>11,796</u>	<u>11,880</u>	

Note: The expected timeline has been extended from end of December 2022 to end of December 2023 in light of the impact of the fifth wave of COVID-19 pandemic on Hong Kong economy.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the “Use of Proceeds from the Listing” section disclosed above, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the Current Year, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEE AND EMOLUMENT POLICIES

As at 31 December 2022, the employee headcount (including executive Directors) of the Group was 159 (31 December 2021: 168) and the total staff costs, including share-based payments and sales commission (including Directors’ emoluments) amounted to approximately HK\$62.2 million in the Current Year (Last Year: approximately HK\$68.3 million).

The Group recruits and promotes individuals based on their performance and development potential in the positions held. In order to attract and retain high quality staff and to enable smooth operations within the Group, the Group offered competitive remuneration packages (with reference to market conditions and individual qualifications and experience) and various in-house training courses. The remuneration packages are subject to review on a regular basis. The emoluments of the Directors and senior management are reviewed and approved by the Board of the Company, having regard to the Company’s operating results, market competitiveness, individual performance and achievement.

The Group participates in a Mandatory Provident Fund Scheme (the “**MPF Scheme**”) under rules and regulations of Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong) (the “**MPF Ordinance**”) for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the MPF Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, contributions are made based on a percentage of the participating employees’ relevant income from the Group and are charged to the profit or loss as they become payable. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. When an employee leaves the MPF Scheme, the mandatory contributions are fully vested with the employee.

The employees of the Group in the People’s Republic of China (excluding Hong Kong and Macao) (the “**PRC**”) are members of a state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. John Warren MCLENNAN (“Mr. MCLENNAN”), aged 60, is an executive Director, the chairman of the Board, chief executive officer (with effect from 1 July 2021) and the compliance officer of the Group (with effect from 1 July 2021). He is also a member of our Remuneration Committee. He is our founder and joined the Group in July 2002 as managing director of Options Home Furnishings Limited, which is the predecessor of Indigo Living Limited (currently a subsidiary of the Company). Mr. MCLENNAN is responsible for the overall strategic and creative development of our Group. Mr. MCLENNAN graduated from the University of British Columbia, Vancouver, Canada with a degree of Bachelor of Arts majoring in geography in 1987. Between 1987 and 2002, Mr. MCLENNAN worked at a number of companies in Taiwan and Hong Kong which businesses were related to children toys, premium gifts, education contents and interior design; he gained experience in setting up a business, staff management, quality control, sourcing materials and distribution. Mr. MCLENNAN has more than 20 years of experience in the home furnishing industry. He is the spouse of Mrs. Jennifer Carver MCLENNAN.

Mr. SO Kin Ting Wilson, aged 39, has been an executive Director since 22 April 2021. He is currently the deputy general manager of Sirius Venture Management Limited, a company providing financial advisory and business consultancy services. He has more than 10 years of experience in corporate finance, investment analysis and consultancy services. He graduated from La Trobe University, Melbourne, Australia, with a Bachelor of Business, and obtained a Master of Corporate Finance in the Hong Kong Polytechnic University.

Ms. Shawlain AHMIN (“Ms. AHMIN”), aged 50, was appointed as an executive Director of the Company on 27 May 2022. She is currently a director of, and holds 50% interest in LW Secretaries Limited, a company incorporated in Hong Kong for the provision of company secretarial services to corporate and individual clients in Hong Kong and mainland China. She was appointed as an executive director of WWPKG Holdings Company Limited (Stock Code: 08069, a company listed on GEM of the Stock Exchange of Hong Kong Limited) since 22 June 2022. She obtained a bachelor’s degree of arts in translation and Chinese from the Hong Kong Polytechnic University and has more than 25 years’ experiences in corporate services, business development, and strategic planning and operations.

Ms. WONG Wing Man (“Ms. WONG”), aged 45, was appointed as an executive Director with effect from 15 March 2023. She is currently a director and sole owner of Century Great Investments Limited, an investment holding company and also a substantial shareholder of the Company. Ms. Wong has more than 12 years of experience in customer relationship management, marketing, human resources management and administration. Ms. Wong holds a Master of business administration degree from Hong Kong Baptist University, a Postgraduate Diploma in Professional Accounting from Hong Kong Baptist University, and a Bachelor of Business Administrative Management from University of South Australia.

Mr. WONG Ka Man (“Mr. WONG”), aged 55, was appointed as a Joint Company Secretary with effect from 20 December 2022, and was appointed an executive Director and became the sole Company Secretary of the Company with effect from 15 March 2023. He has about 33 years of experience in audit and accounts, with about 20 years of working experiences in companies listed in Hong Kong and New York Stock Exchange. Mr. WONG was awarded a higher diploma in accountancy from the Hong Kong Polytechnic University in November 2000. He is currently a member of The Association of Chartered Certified Accountants and a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

NON-EXECUTIVE DIRECTOR

Mrs. Jennifer Carver MCLENNAN (“Mrs. MCLENNAN”), aged 59, is a non-executive Director. Mrs. MCLENNAN is responsible for assisting the Group in financial strategic planning. She is the spouse of Mr. MCLENNAN and a niece of Mr. John Martin RINDERKNECHT, a substantial shareholder of the Company and a member of the Single Largest Shareholders Group (as defined on page 24).

In May 1985, Mrs. MCLENNAN graduated from Pomona College in Claremont, California, USA with a degree in international relations. Mrs. MCLENNAN has more than 14 years of experience in asset management, investment advisory and technology.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SO Alan Wai Shing, aged 55, has been an independent non-executive Director since 23 February 2021. He is currently the sole proprietor of Alan So & Co., Certified Public Accountants. He has more than 26 years of experience in audit and accounting field and is currently a registered practicing member of the Hong Kong Institute of Certified Public Accountants. From May 2012 to February 2014, he was the chief financial officer and company secretary of Huazhang Technology Holding Limited (a company then listed on the GEM of the Stock Exchange with stock code 8276, now listed on the Main Board of the Stock Exchange with stock code 1673). From August 2016 to October 2019, he was the chief financial officer of Royale Furniture Holdings Limited (a company listed on the Main Board of the Stock Exchange with stock code 1198). Mr. SO holds a bachelor’s degree in business majoring in accounting from Edith Cowan University and a master’s degree in business administration from The Open University of Hong Kong.

Mr. LEE Kwong Ming, aged 51, has been an independent non-executive Director since 22 April 2021. He is a fellow member and a practising certificate holder of Hong Kong Institute of Certified Public Accountants. He is also a fellow member of the Association of International Accountants. He was appointed as an independent non-executive director of WWPKG Holdings Company Limited (Stock Code: 08069, a company listed on GEM of the Stock Exchange of Hong Kong Limited) since 4 July 2022. He is currently full-time practising on his own name and has more than 26 years of experience in audit, tax and company secretarial services.

Mr. LEE Fung Lun, aged 46, has been an independent non-executive Director since 13 October 2021. He is currently the managing director of Zhongrong International Alternative Asset Management Limited, a company engaged in real estate investments in Greater China region. Mr. LEE has more than 23 years of experience in real estate investment, construction, property mortgage and property management services. Mr. LEE holds a Bachelor of Science degree in Real Estate from Hong Kong Polytechnic University, and an Estate Agent License (Individual) issued by the Estate Agents Authority.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Tom SZUTU (“Mr. SZUTU”), aged 50, was appointed as an independent non-executive Director of the Company on 27 May 2022. He is currently the managing director of KNYSE Inc., a business management and strategy consulting firm incorporated in Canada. He was previously a director and chief operating officer of Daymak Inc., a company incorporated in Canada making and designing of light electric vehicles. He graduated from Haskayne School of Business of the University of Calgary, with a bachelor’s degree of commerce. He also holds a Chartered Investment Manager designation from the Canadian Securities Institute with over 25 years of experience in finance, capital markets and corporate governance.

Mr. Kurt Kwai Ching MAK (“Mr. MAK”), aged 55, was appointed as an independent non-executive Director of the Company on 27 May 2022. He is currently the chief financial officer of the Chippery Group of companies incorporated in Canada and runs his own management and consulting practice in Canada. He has over 20 years of operational and senior finance experiences. He obtained a bachelor’s degree of commerce in accounting from University of Saskatchewan in Canada and is currently a member of Chartered Professional Accountants of Ontario.

SENIOR MANAGEMENT

Mr. LI Shiu Tong Andrew (“Mr. LI”), aged 60, has been the Chief Executive Officer of Indigo Living Limited (a wholly owned subsidiary of the Group as a major arm of Hong Kong operations) since 13 January 2022. Mr. LI is a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. He holds a Master of Business Administration degree from the University of Wales. Mr. LI has more than 33 years’ experience in external and internal audit, accountancy, research and development, merger and acquisition and business management. Prior to joining the Group, Mr. LI held a number of senior positions in a multinational security services company and a manufacturing company listed in the main board of the Stock Exchange.

DIRECTORS' REPORT

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2022 (the “Year”).

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 28 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 78 of this annual report.

The Directors did not recommend the payment of a final dividend for the Year.

BUSINESS REVIEW AND PERFORMANCE

A fair review of the Group's business, a discussion and analysis of the Group's performance during the Year and an analysis of the likely future development of the Group's business are set out in the Management Discussion and Analysis from pages 7 to 14 to this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Description of the principal risks and uncertainties faced by the Group are set out in the note 26 to the consolidated financial statements. The Company's approach on risk management is set out in Corporate Governance Report from pages 33 to 44 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of events occurring after the reporting period are set out in note 31 to the consolidated financial statements.

ENVIRONMENT POLICIES AND COMPLIANCE WITH LAWS AND REGULATIONS

In addition, discussion on the key relationships with the Company's key stakeholders, the Group's environmental policies and performance as well as compliance with relevant laws and regulations which have a significant impact on the Group are set out in the Environmental, Social and Governance Report from pages 45 to 69 of this annual report.

DIRECTORS' REPORT (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group are set out in note 10 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 24 to the consolidated financial statements.

RETAINED PROFITS/ACCUMULATED LOSSES

Details of movements in the retained profits of the Group during the Year are set out on page 81 of this annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2022, the Company's reserve available for distribution to the shareholders of the Company (the "**Shareholders**") amounted to HK\$15,039,000 (2021: HK\$41,907,000).

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 154 of this annual report.

INTEREST-BEARING BANK BORROWINGS

Particulars of interest-bearing bank borrowings of the Group as at 31 December 2022 are set out in the consolidated statement of financial position and note 20 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme as defined and disclosed in note 23 to the consolidated financial statements, no equity-linked agreements were entered into by the Company during the Year or subsisted at the end of the Year.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The Directors during the Year and up to the date of this annual report were:

Executive Directors:

Mr. John Warren MCLENNAN (Mr. MCLENNAN)
Ms. MOK Lai Yin Fiona (Ms. MOK) (resigned with effect from 15 March 2023)
Mr. SO Kin Ting Wilson
Mr. ZHENG Tianzhi (Mr. ZHENG) (resigned with effect from 27 May 2022)
Ms. Shawlain AHMIN (Ms. AHMIN) (appointed with effect from 27 May 2022)
Ms. WONG Wing Man (appointed with effect from 15 March 2023)
Mr. WONG Ka Man (appointed with effect from 15 March 2023)

Non-Executive Director:

Mrs. Jennifer Carver MCLENNAN (Mrs. MCLENNAN)

Independent Non-Executive Directors:

Mr. Roderick Donald NICHOL (Mr. NICHOL) (resigned with effect from 27 May 2022)
Ms. Lale KESEBI (Ms. KESEBI) (resigned with effect from 27 May 2022)
Mr. SO Alan Wai Shing
Mr. LEE Kwong Ming
Mr. LEE Fung Lun
Mr. Tom SZUTU (appointed with effect from 27 May 2022)
Mr. Kurt Kwai Ching MAK (appointed with effect from 27 May 2022)

Biographical details of the Directors and senior management as at the date of this report are set out from pages 15 to 17 of this annual report. Details of Directors' remuneration are set out in note 8 to the consolidated financial statements.

Pursuant to Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. Ms. Shawlain AHMIN, Mr. Tom SZUTU, Mr. Kurt Kwai Ching MAK, Ms. WONG Wing Man and Mr. WONG Ka Man will retire at the forthcoming annual general meeting ("AGM"), and being eligible, offer themselves, for re-election.

Pursuant to Article 84(1) of the Articles of Association, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation at each annual general meeting, provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Mrs. Jennifer Carver MCLENNAN and Mr. LEE Kwong Ming will retire by rotation at the forthcoming AGM, and being eligible, offer themselves for re-election.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS OF SUBSIDIARIES

The names of all directors who have served on the boards of the subsidiaries of the Company during the Year and up to the date of this annual report are set out below:

Mr. John Warren MCLENNAN (*note 1*)
Ms. MOK Lai Yin Fiona (*note 3*)
Mr. SO Kin Ting Wilson (*note 1*)
Mr. ZHENG Tianzhi (*note 2*)
Ms. Shawlain AHMIN (*note 1*)
Ms. Alison Siobhan BAILEY (resigned with effect from 31 March 2022)
Ms. CHAN Pui Man
Mr. SONG Huang Sean

Notes:

- (1) Also Directors of the Company.
- (2) Resigned with effect from 10 June 2022, also Director of the Company until his resignation on 27 May 2022.
- (3) Resigned as Director of the Company on 15 March 2023, but she still holds directorship of certain subsidiaries of the Company up to the date of this annual report.

MANAGEMENT CONTRACTS

No contracts, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Group's business were entered into or existed during the Year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed under the heading "Connected Transactions" in this report, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the company or an entity connected with a Director had a material interest, subsisted at the end of the Year or at any time during the Year.

CONTRACTS OF SIGNIFICANCE BETWEEN THE GROUP AND THE CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE SUBSIDIARIES

The particulars of the contracts of significance between the Group and the Controlling Shareholders or their respective subsidiaries or the contracts of significance for the provision of services to the Group by the Controlling Shareholders or their respective subsidiaries are set out under the paragraph headed "Connected Transactions" in this report.

PERMITTED INDEMNITY PROVISIONS

During the Year and up to the date of this report, the Company has in force permitted indemnity provisions which are provided for in the Company's Articles of Association and in the Directors and officers liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against the Directors and the directors of the members of the Group respectively.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' SERVICE CONTRACTS

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

REMUNERATION BANDS OF MEMBERS OF SENIOR MANAGEMENT

Details of the remuneration bands of members of senior management of the Group are set out in note 27(a) to the consolidated financial statements.

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in note 8 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31 December 2022, the interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance Chapter 571 of the laws of Hong Kong (the "SFO")) held by the Directors and chief executives of the Company (the "Chief Executives") which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise have been notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

(i) Long position in the shares of the Company (the "Shares")

Name	Capacity/ Nature of Interest	Number of Shares held	Percentage of shareholding (note 1)
Mr. MCLENNAN	Interest in a controlled corporation and interest held jointly with other persons (note 2)	414,500,000	31.40%
Mrs. MCLENNAN	Interest of spouse (note 3)	414,500,000	31.40%

DIRECTORS' REPORT (CONTINUED)

Notes:

- (1) The calculation is based on the total number of 1,320,000,000 Shares in issue as at 31 December 2022.
- (2) Double Lions Limited (“**Double Lions**”) is owned as to 40.48% by Mr. MCLENNAN, 20.00% by Ms. Tracy Ann FITZPATRICK (**Ms. FITZPATRICK**), 14.88% by Ms. Alison Siobhan BAILEY (**Ms. BAILEY**), 14.88% by Mr. John Martin RINDERKNECHT (**Mr. RINDERKNECHT**) and 9.76% by Mr. James Seymour Dickson LEACH (**Mr. LEACH**) (collectively with Double Lions, the “**Controlling Shareholders**”). Each of the Controlling Shareholders executed the deed of acting in concert (the “**Deed of AIC**”) dated 12 February 2018 confirming the existence of their acting in concert and are deemed to be interested in all the Shares owned by Double Lions.
- (3) Mrs. MCLENNAN is the spouse of Mr. MCLENNAN and is deemed to be interested in the Shares held by Mr. MCLENNAN by virtue of the SFO.

(ii) Long position in the shares of associated corporations

Name of Directors	Name of associated corporation	Nature of interest	Number of shares of US\$1.00 each in our associated corporation held	Approximate percentage of shareholding in our associated corporation
Mr. MCLENNAN	Double Lions	Beneficial interest and interest held jointly with other persons (<i>note 1</i>)	2,530	40.48%
Mrs. MCLENNAN	Double Lions	Interest of spouse (<i>note 2</i>)	2,530	40.48%

Notes:

- (1) Double Lions is owned as to 40.48% by Mr. MCLENNAN, 20.00% by Ms. FITZPATRICK, 14.88% by Ms. BAILEY, 14.88% by Mr. RINDERKNECHT and 9.76% by Mr. LEACH. By virtue of acting in concert arrangement as documented and confirmed under the Deed of AIC, each of Mr. MCLENNAN, Ms. FITZPATRICK, Ms. BAILEY, Mr. RINDERKNECHT and Mr. LEACH is deemed to be interested in the entire issued shares of Double Lions under the SFO. Mr. MCLENNAN, Ms. FITZPATRICK and Ms. BAILEY are directors of Double Lions.
- (2) Mrs. MCLENNAN is the spouse of Mr. MCLENNAN and is deemed to be interested in the shares of Double Lions held by Mr. MCLENNAN by virtue of the SFO.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the Year were rights to acquire benefits by means of the acquisition of Shares or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

COMPETING INTERESTS

The Company has received an annual confirmation from each of the Directors that they have not carried on any activities which compete or may compete with the business of the Group, nor were there any conflict of interest which each of them and their respective close associates have or may have with the Group during the Year.

As at the date of this report, save as disclosed in the section headed "Relationship with Controlling Shareholders" in the Prospectus, none of the Directors, and the Controlling Shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group or have any other conflicts of interest with the Group.

NON-COMPETITION UNDERTAKING

Each of the controlling shareholders of the Company, namely Double Lions, Mr. MCLENNAN, Ms. FITZPATRICK, Ms. BAILEY, Mr. RINDERKNECHT and Mr. LEACH (the "**Single Largest Shareholders Group**"), entered into the Deed of Non-Competition in favour of the Company on 19 June 2018 (the "**Deed of Non-Competition**"), details of which have been set out in the Prospectus.

The Company has received an annual confirmation from the Single Largest Shareholders Group in respect of their compliance with the non-competition undertakings under the Deed of Non-Competition for the Year. The independent non-executive Directors have also reviewed the compliance with the non-competition undertakings under the Deed of Non-Competition by the Single Largest Shareholders Group and confirmed that the Single Largest Shareholders Group has not been in breach of the Deed of Non-Competition during the Year.

DIRECTORS' REPORT (CONTINUED)

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Group during the Year, which did not constitute connected transactions and were not required to be disclosed under the GEM Listing Rules, are disclosed in note 27 to the consolidated financial statements.

Other related party transactions entered into by the Group in 2022 and up to the date of this annual report, which fall under the definition of “connected transactions” or “continuing connected transactions” and not exempted under Rule 20.29 and Rule 20.31 of the GEM Listing Rules, are as follows:

UAE Transactions

The table below sets forth the connected persons of the Company involved in the UAE Transactions and the nature of their respective connections with the Group:

Name of connected person	Connected relationship
Links Commercial Brokers LLC (the “ UAE Nominee ”)	The UAE Nominee is a corporate nominee service provider. The UAE Nominee owns 51% legal interests in Indigo Living LLC (“ Indigo Dubai ”) and, through the Contractual Arrangements (as defined below), has enabled our Group to have 100% control over Indigo Dubai. The UAE Nominee is regarded as a connected person of our Company.
Mr. Mohamed Ameen Hasan Mohamed Mubasheri Almarzooqi	Mr. Mohamed Ameen Hasan Mohamed Mubasheri Almarzooqi owns 90% of the UAE Nominee and is therefore a connected person of the Company.
Ms. Maimoona Abdulla Ali Ahmed Alrais	Ms. Maimoona Abdulla Ali Ahmed Alrais is the spouse of Mr. Mohamed Ameen Hasan Mohamed Mubasheri Almarzooqi and is therefore a connected person of the Company.

As disclosed in the section headed “Contractual Arrangements” of Prospectus, the United Arab Emirates (the “**UAE**”) laws limits non-Gulf Cooperation Council/UAE Entities to owning no more than 49% of the share capital in a UAE limited company, and the Anti-Fronting Law, on its face, has the effect of prohibiting situations where companies seek to circumvent the 51/49 foreign ownership restrictions. As a result, in order to protect our Group’s interests in the UAE, our Group, the UAE Nominee, a limited company incorporated under the laws of the UAE and the registered holder of 51% equity interest in Indigo Dubai and is a corporate nominee services provider pursuant to the Contractual Arrangements, and its shareholders entered into the following two transactions (collectively the “**UAE Transactions**”):

(i) **Service Agreement**

Pursuant to the terms of a service agreement (the “**Service Agreement**”) dated 29 March 2018, the UAE Nominee will assist Deep Ocean SPV and/or Indigo Dubai to obtain and maintain company registration and licenses, apply visas for employees of Indigo Dubai and their respective family members to work and stay in the UAE and assist with other company secretarial and legal matters necessary for Deep Ocean SPV and Indigo Dubai to operate in the UAE.

DIRECTORS' REPORT (CONTINUED)

For the Year, the Group paid the UAE Nominee AED185,000 (approximately HK\$394,000) for the above-mentioned services in relation to Indigo Dubai.

(ii) **Contractual Arrangement**

There are a series of agreements narrowly tailored to provide the Group with control and ownership over Indigo Dubai, achieve the business purposes of the Group, minimise the potential for conflict with the relevant UAE laws and regulations and grant the Group the right to acquire the equity interests of Indigo Dubai when permitted by the UAE laws and regulations.

The series of agreements (the "**Contractual Arrangements**") comprise:

- (1) Loan agreement dated 7 March 2018 and entered into among Pacific Legend Development Limited ("**Pacific Legend Development**") as lender, the UAE Nominee as borrower and Deep Ocean SPV (the "**Loan Agreement**") provides that:
 - (a) Pacific Legend Development lends to the UAE Nominee in the amount of US\$10,000 (for subscribing the entire share capital of Deep Ocean SPV) and approximately AED13.9 million (for paying 51% of Indigo Dubai, which value was by reference to the unaudited net asset value of Indigo Dubai as at 31 December 2017).
 - (b) The loan is interest free.
 - (c) The UAE Nominee gave an undertaking to Pacific Legend Development including but not limited to the following: (i) not to mortgage, charge, pledge or otherwise encumber the shares of Deep Ocean SPV; (ii) to direct all dividend from Deep Ocean SPV to be paid to Pacific Legend Development; (iii) to keep the 100% shareholding in Deep Ocean SPV isolated from any of the other transactions (including those in the ordinary course of business) of the UAE Nominee; and (iv) not to sell, transfer or otherwise dispose of the shares of Deep Ocean SPV without prior notice and written consent of Pacific Legend Development.
 - (d) The UAE Nominee shall distribute the dividends, income, assets and capital of Deep Ocean SPV according to the instruction of Pacific Legend Development.
 - (e) Repayment of the loan may only be made by the UAE Nominee transferring the entire share capital of Deep Ocean SPV to Pacific Legend Development or, where the law permits, to any third party designated in the sole and absolute discretion by Pacific Legend Development.
 - (f) The Loan Agreement shall remain valid until the loan is fully repaid or upon the happening of (i) material default on the part of the UAE Nominee to observe or perform the terms and conditions of the Loan Agreement, (ii) the UAE Nominee compounds with its creditors in consequence of debt or is being threatened to satisfy the debt of its creditors with any of the assets of the UAE Nominee, (iii) Pacific Legend Development is permitted under the laws of Abu Dhabi Global Market of the Emirates of Abu Dhabi of the UAE ("**ADGM**") or the UAE to hold Indigo Dubai in its own name, or (iv) upon the bankruptcy of the UAE Nominee.

DIRECTORS' REPORT (CONTINUED)

- (2) Share charge dated 7 March 2018 entered into by the UAE Nominee in favour of Pacific Legend Development (the “**Share Charge**”) under which the UAE Nominee agrees (i) to charge the entire shares in Deep Ocean SPV to Pacific Legend Development as continuing security for the payment of the loans pursuant to the Loan Agreement; (ii) that Pacific Legend Development are entitled to the dividends paid on the shares of Indigo Dubai that are held by the UAE Nominee and/or Deep Ocean SPV; (iii) not to create any security interest over or assign or transfer its rights or obligation under the Share Charge without prior notice to and written consent of Pacific Legend Development; and (iv) Pacific Legend Development shall retain possession of the share certificate of Deep Ocean SPV as securities for the repayment of the loan under the Loan Agreement. On 11 March 2018, the Share Charge was registered with the ADGM pursuant to the ADGM Companies Law Regulations, which also govern the registration and enforcement of charges in the ADGM. Due to such registration, even upon the death of any of the shareholders of the UAE Nominee, the interests of Pacific Legend Development in Indigo Dubai are protected. Until the UAE Nominee repays the loan fully under the Loan Agreement, the UAE Nominee continues to hold 100% of Deep Ocean SPV.
- (3) Proxy dated 29 March 2018 entered into by Deep Ocean SPV in favour of Pacific Legend Development (the “**Proxy**”) under which Deep Ocean SPV irrevocably appoints the nominee of Pacific Legend Development to be its proxy to vote at shareholders’ meetings of Indigo Dubai in respect of any existing or further shares of Indigo Dubai which may have been or may from time to time be issued and/or registered in the name of Deep Ocean SPV.
- (4) Special power of attorney notarised on 18 April 2018 and entered into by the UAE Nominee in favour of Pacific Legend Development (the “**SPOA**”) under which, pursuant to the terms of the Loan Agreement, the UAE Nominee appointed the nominee of Pacific Legend Development to receive all bonus shares and other rights attaching or accruing to the shares of Deep Ocean SPV including the right to transfer the shares of Deep Ocean SPV to another nominee should the UAE Nominee be in breach of its obligations and grant the power to Pacific Legend Development’s directors and their successors (including the rights to vote in a shareholders’ meeting of Deep Ocean SPV, sign minutes, file documents with the ADGM; the UAE Nominee shall ensure that the SPOA does not give rise to any potential conflicts of interest.
- (5) Undertaking dated 29 March 2018 entered into by the UAE Nominee, Deep Ocean SPV and the shareholders of the UAE Nominee in favour of Pacific Legend Development (the “**Undertaking**”) provides that the UAE Nominee irrevocably undertakes the following:
 - (a) the UAE Nominee will terminate and unwind the Contractual Arrangements as soon as the UAE allows Indigo Dubai to be owned without a local 51% shareholder;
 - (b) the UAE Nominee will return to Pacific Legend Development any consideration they receive in the event that Pacific Legend Development acquires the 51% of Indigo Dubai from the UAE Nominee; and
 - (c) the UAE Nominee ensures that the Contractual Arrangements will not give rise to any potential conflicts of interest at Indigo Dubai.

DIRECTORS' REPORT (CONTINUED)

- (6) General power of attorney notarised on 3 April 2018 and entered into by Pacific Legend Development and Deep Ocean SPV in favour of Mr. MCLENNAN (the “GPOA”) to have full rights of management of Indigo Dubai. According to our UAE Legal Advisers, the GPOA was duly notarised and cannot be revoked other than by all the parties to the GPOA.

There was no additional payment from our Group to the UAE Nominee in respect of the Contractual Arrangements.

The Directors believe that the Company's structure whereby Indigo Dubai's financial results are consolidated into the Company's consolidated financial statements as if Indigo Dubai was a wholly-owned subsidiary and the flow of economic benefits from their business to the Company, places the Group in a special position in relation to the connected transactions rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions for the purposes of Chapter 20 of the GEM Listing Rules, the Directors consider that it would be unduly burdensome and impracticable and would impose unnecessary administrative costs on us to be subject to strict compliance with the requirements set out under Chapter 20 of the GEM Listing Rules in respect of these continuing connected transactions. Accordingly, the Company has, pursuant to the GEM Listing Rules, applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirements relating to these continuing connected transactions under the GEM Listing Rules. In addition, the Directors confirm that the Company has complied and will continue to comply with the applicable provisions under the GEM Listing Rules.

The Directors, including all the independent non-executive Directors, have reviewed the UAE Transactions and confirmed that they have been entered into:

- i. the transactions carried out during such year have been entered into in accordance with the relevant provisions of the UAE Transactions so that the revenue generated by Indigo Dubai have been mainly retained by our Group;
- ii. no dividends or other distributions have been made by Indigo Dubai to the holders of its equity interests which are not retained by assigned or transferred to our Group ; and
- iii. the UAE Transactions entered into, renewed or reproduced between the UAE Nominee and our Group during the Year are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

The Company's auditor has reported to the Directors in their letter that based on their work performed:

- i. the UAE Transactions have received the approval of our Directors;
- ii. the UAE Transactions have been entered into in accordance with the relevant UAE Transactions; and
- iii. no dividends or other distributions have been made by Indigo Dubai to the holders of its equity interests which are not retained by or assigned or transferred to our Group;

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules in respect of the connected transactions and continuing connected transactions. A copy of the auditor's letters has been provided by the Company to the Stock Exchange.

DIRECTORS' REPORT (CONTINUED)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2022, the register of substantial shareholders required to be kept under Section 336 of Part XV of the SFO showed that the Company had been notified of the following substantial shareholders' interests, being 5% or more in the issued ordinary share capital of the Company. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

Name	Capacity/Nature of Interest	Number of Shares held <i>(note 6)</i>	Percentage of shareholding <i>(note 2)</i>
Double Lions	Beneficial interest	414,500,000 (L)	31.40%
Ms. FITZPATRICK	Interest in a controlled corporation, interest held jointly with other persons <i>(note 1)</i> and interest of spouse <i>(note 3)</i>	414,500,000 (L)	31.40%
Mr. David Frances BULBECK	Interest of spouse <i>(note 3)</i>	414,500,000 (L)	31.40%
Ms. BAILEY	Interest in a controlled corporation, interest held jointly with other persons <i>(note 1)</i> and interest of spouse <i>(note 4)</i>	414,500,000 (L)	31.40%
Mr. LEACH	Interest in a controlled corporation, interest held jointly with other persons <i>(note 1)</i> and interest of spouse <i>(note 4)</i>	414,500,000 (L)	31.40%
Mr. RINDERKNECHT	Interest in a controlled corporation and interest held jointly with other persons <i>(note 1)</i>	414,500,000 (L)	31.40%
Mr. CHEUNG Wai Keung	Beneficial interest	132,000,000 (L)	10.00%
Ms. WONG Wing Man	Interest in a controlled corporation <i>(note 5)</i>	139,380,000 (L)	10.56%
Century Great Investments Limited	Beneficial interest	139,380,000 (L)	10.56%

DIRECTORS' REPORT (CONTINUED)

Notes:

- (1) Double Lions is owned as to 40.48% by Mr. MCLENNAN, 20.00% by Ms. FITZPATRICK, 14.88% by Ms. BAILEY, 14.88% by Mr. RINDERKNECHT and 9.76% by Mr. LEACH (collectively, with Double Lions, the “**Controlling Shareholders**”). Each of the Controlling Shareholders executed the Deed of AIC confirming the existence of their acting in concert and are deemed to be interested in all the Shares owned by Double Lions.
- (2) The calculation is based on the total number of 1,320,000,000 Shares in issue as at 31 December 2022.
- (3) Mr. David Frances BULBECK is the spouse of Ms. FITZPATRICK and is deemed to be interested in the Shares held by Ms. FITZPATRICK by virtue of the SFO.
- (4) Ms. BAILEY and Mr. LEACH are married to each other and each of them is deemed to be interested in the Shares held by her/his spouse via Double Lions by virtue of the SFO.
- (5) Century Great Investments Limited is 100% owned by Ms. WONG Wing Man. Ms. WONG was appointed as an executive Director of the Company with effect from 15 March 2023.
- (6) The letter “L” denotes the entity/person’s long position in the shares of the Company.

Save as disclosed above, as at 31 December 2022 and up to the date of this report, the Directors were not aware of any other persons or companies who had any interest or short position in the Shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s securities.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all of the independent non-executive Directors are independent.

DIRECTORS' REPORT (CONTINUED)

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and cost of sales attributable to the major customers and suppliers respectively is as follows:

	Percentage of the Group's total	
	Sales	Cost of sales
The largest customer	6.43%	
Five largest customers in aggregate	19.66%	
The largest supplier		10.40%
Five largest suppliers in aggregate		31.25%

At no time during the Year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) had any interest in these major customers and suppliers.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report from pages 33 to 44 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the issue of this annual report, there was sufficient public float of at least 25% of the Company's issued Shares as required under the GEM Listing Rules.

CHARITABLE DONATIONS

During the Year, the Group did not make any charitable donation (2021: Nil).

PRE-EMPTIVE RIGHTS

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

CLOSURE OF THE REGISTER OF MEMBERS

The period for which the register of members of the Company will be closed for the purpose of ascertaining the entitlement of the shareholders of the Company to attend and vote at the AGM will be announced at least 10 business days before such closure in accordance with rule 17.78(1) of the GEM Listing Rules.

DIRECTORS' REPORT (CONTINUED)

AUDITOR

The consolidated financial statements for the Year have been audited by Baker Tilly Hong Kong Limited who will retire at the forthcoming AGM and a resolution for their reappointment as auditors of the Company will be proposed thereat.

On behalf of the Board

John Warren MCLENNAN

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 30 March 2023

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to establishing and ensuring high standards of corporate governance and adopt sound corporate governance practices on the basis of the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 to the GEM Listing Rules.

This Corporate Governance Report is presented for the year ended 31 December 2022 (the “Year”). The Directors consider that the Company has complied with all the code provisions set out in the CG Code during the Year.

DIRECTORS’ SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “Required Standard of Dealings”). Having made specific enquiry of all the Directors, each of them confirmed that they had complied with the Required Standard of Dealings throughout the Year, and the Company was not aware of any non-compliance with such Required Standard of Dealings and its code of conduct regarding securities transactions by Directors during the Year.

BOARD OF DIRECTORS

Board Composition

As at the date of this report, the Board comprises eleven Directors. Details of the composition are as follows:

(i) Executive Directors

Mr. John Warren MCLENNAN (Mr. MCLENNAN) (Chairman and Chief Executive Officer)	
Ms. MOK Lai Yin Fiona (Ms. MOK)	(resigned with effect from 15 March 2023)
Mr. SO Kin Ting Wilson	
Mr. ZHENG Tianzhi (Mr. ZHENG)	(resigned with effect from 27 May 2022)
Ms. Shawlain AHMIN (Ms. AHMIN)	(appointed with effect from 27 May 2022)
Ms. WONG Wing Man (Ms. WONG)	(appointed with effect from 15 March 2023)
Mr. WONG Ka Man (Mr. WONG)	(appointed with effect from 15 March 2023)

(ii) Non-executive Director

Mrs. Jennifer Carver MCLENNAN (Mrs. MCLENNAN)

(iii) Independent non-executive Directors

Mr. Roderick Donald NICHOL (Mr. NICHOL)	(resigned with effect from 27 May 2022)
Ms. Lale KESEBI (Ms. KESEBI)	(resigned with effect from 27 May 2022)
Mr. SO Alan Wai Shing	
Mr. LEE Kwong Ming	
Mr. LEE Fung Lun	
Mr. Tom SZUTU (Mr. SZUTU)	(appointed with effect from 27 May 2022)
Mr. Kurt Kwai Ching MAK (Mr. MAK)	(appointed with effect from 27 May 2022)

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Board had complied with the Rule 5.05 of the GEM Listing Rules to have at least three independent non-executive Directors (who collectively represent at least one-third of the board) and at least one independent non-executive Director has appropriate professional qualifications or accounting or related financial management expertise.

Each of the independent non-executive Director has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board considers that all independent non-executive Directors to be independent to the Company and meet the requirements set out in Rules 5.09 of the GEM Listing Rules at the date of this report.

Except that Mrs. MCLENNAN is the spouse of Mr. MCLENNAN, none of the members of the Board has any relationship (including financial, business, family or other material/relevant relations) among each other.

Roles and Responsibilities of the Board

The Company is headed by the Board which is responsible for the leadership, control and promotion of the success of the Group in the interests of the Shareholders by directing and supervising its affairs and by formulating strategic directions and monitoring the financial and management performance of the Group.

Some of the key responsibilities of the Board include:

- setting the Group's values, vision and mission;
- establishing and maintaining the strategic direction and objectives of the Group;
- monitoring the performance of management;
- ensuring that a framework of prudent and effective controls is in place to enable risks to be assessed and managed; and
- review and approve the quarterly/interim/final financial results of the Company

The Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference which are published on the respective websites of GEM and the Company. The Board may from time to time delegate certain functions to senior management of the Group if and when considered appropriate. The management of day-to-day operation of the Group's businesses and implementation of the business plans, strategies and policies adopted by the Board has been delegated to the senior management of the Group.

The Company has an experienced and committed management team. All of the executive Directors and our senior management have been serving the Group for an average of 5 years. The executive Directors are also interested in our business outcomes and thus their own interests align with that of the Company. The committed and continued service of our management team allows the Group to execute our business strategy with long term vision and objective without interruption.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Board Meetings and General Meeting

Ten board meetings were held during the Year, in which four meetings were held to approve the annual results for the year ended 31 December 2021, and the first quarterly, interim and third quarterly results of 2022, respectively. The other board meetings were held to approve, among others (i) change of Directors, (ii) approval of discloseable transactions, and (iii) change of use of proceeds from Listing.

The annual general meeting of the Company for the year ended 31 December 2021 was held on 13 May 2022 (the “**2022 AGM**”). An extraordinary general meeting of the Company was held on 30 September 2022 to approve the amendments to the articles of association of the Company and to adopt the new articles of the Company (the “**2022 EGM**”).

The attendance of each of Directors at board meetings during the Year, the 2022 AGM and the 2022 EGM is set out in the table below:

Name of Director	Attendance/ Number of board meetings held	Attendance at 2022 AGM	Attendance at 2022 EGM
Executive Directors			
Mr. John Warren MCLENNAN	10/10	1/1	1/1
Ms. MOK Lai Yin Fiona (resigned with effect from 15 March 2023)	6/10	1/1	1/1
Mr. SO Kin Ting Wilson	7/10	1/1	1/1
Mr. ZHENG Tianzhi (resigned with effect from 27 May 2022)	3/5	1/1	N/A
Ms. Shawlain AHMIN (appointed with effect from 27 May 2022)	4/5	N/A	0/1
Ms. WONG Wing Man (appointed with effect from 15 March 2023)	N/A	N/A	N/A
Mr. WONG Ka Man (appointed with effect from 15 March 2023)	N/A	N/A	N/A
Non-executive Director			
Mrs. Jennifer Carver MCLENNAN	10/10	1/1	1/1
Independent non-executive Directors			
Mr. Roderick Donald NICHOL (resigned with effect from 27 May 2022)	3/5	0/1	N/A
Ms. Lale KESEBI (resigned with effect from 27 May 2022)	3/5	1/1	N/A
Mr. SO Alan Wai Shing	9/10	1/1	N/A
Mr. LEE Kwong Ming	9/10	1/1	N/A
Mr. LEE Fung Lun	5/10	1/1	0/1
Mr. Tom SZUTU (appointed with effect from 27 May 2022)	3/5	N/A	1/1
Mr. Kurt Kwai Ching MAK (appointed with effect from 27 May 2022)	4/5	N/A	1/1

Mr. Roderick Donald NICHOL was out of town on the date of the AGM 2022 and was unable to attend the 2022 AGM due to COVID-19 related travel restriction and his own business commitments. Ms. Shawlain AHMIN and Mr. LEE Fung Lun were unable to attend the 2022 EGM due to their respective business commitments.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Continuous Professional Development of the Directors

Pursuant to the code provision C.1.4 under Appendix 15 to the GEM Listing Rules, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Company has provided relevant materials prepared or published by its legal adviser, professional bodies or regulators to the Directors to keep them abreast of the latest development of legal, regulatory and corporate governance. All Directors have provided records of the training they received to the Company. The trainings included attending experts' briefings, seminars, and/or conferences, and reading materials relevant to the business, corporate governance and directors' duties.

The record of continuous professional training relating to director's duties and regulatory and business development that has been received by the Directors for the year ended 31 December 2022 is summarised as follows:

	Type of training (Note)
(i) Executive Directors	
Mr. MCLENNAN	B
Ms. MOK	B
Mr. SO King Ting Wilson	B
Ms. AHMIN	B
(ii) Non-executive Director	
Mrs. MCLENNAN	B
(iii) Independent non-executive Directors	
Mr. SO Alan Wai Shing	A
Mr. LEE Kwong Ming	A
Mr. LEE Fung Lun	B
Mr. SZUTU	B
Mr. MAK	B

Note:

Types of Training

A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops.

B: Reading/Studying relevant news alerts, newspapers, journals, magazines and relevant publications.

There are also arrangements in place for providing continuing briefing and professional development to Directors whenever necessary. For example, when a Director is newly appointed, he/she will be provided an induction to ensure he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the GEM Listing Rules and the relevant regulatory requirements.

CORPORATE GOVERNANCE REPORT (CONTINUED)

NOMINATION POLICY

The Nomination Policy which was adopted by the Board sets out the selection criteria and procedures for the Nomination Committee to select and recommend suitable candidates for directorship with a view to ensuring that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business.

The Nomination Committee shall consider a variety of factors in assessing the suitability of a proposed candidate for directorship, including but not limited to the following selection criteria:

- Board Diversity Policy;
- accomplishment and experience appropriate to the requirements of the Company's business;
- commitment in respect of sufficient time, interest and attention to the Company's business;
- compliance with the criteria of independence under the GEM Listing Rules for the appointment of independent non-executive Director; and
- any other relevant factors as may be considered by the Nomination Committee from time to time.

If the Board recognises the need to appoint a new director subject to the provisions in the Company's Articles of Association, the Nomination Committee, with or without assistance from external agencies, shall identify candidates in accordance with the selection criteria set out in the Nomination Policy, evaluate the candidates and recommend to the Board the appointment of the appropriate candidate for directorship. The Board decides the appointment based upon the recommendation of the Nomination Committee and the Board has the final authority on determining suitable director candidate for directorship.

Candidates for appointment as Directors may also be sourced internally or externally through various channels such as using the services of specialist executive search firms. The aim is to appoint individuals of the highest calibre in their area of expertise and experience.

GENDER DIVERSITY

Under the revised Rule 17.104 of the GEM Listing Rules that came into effect on 1 January 2022, a single gender Board will not be considered by the Stock Exchange to have achieved board diversity. The Board believes that gender diversity is a manifestation of board diversity, among all other measurable objectives. As at the date of this report the Board comprises three female Directors and eight male Directors. The Company will continue to apply the principle of appointments based on merits with reference to the Board Diversity Policy as a whole. The Company has complied with this new requirement during the year ended 31 December 2022.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Group recognises the importance of diversity and has a diverse workforce in terms of gender, providing a variety of ideas and levels of competency that contribute to the Group's success. In the hiring process, the Company takes into account a number of measurable factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional specialisation, experience, skills, knowledge and other qualifications. Appointment of candidates is solely based on meritocracy, and candidates will be considered against objective criteria, having due regards for the benefits of diversity on the Group. As at 31 December 2022, approximately 44.7% of the Group's employees (including senior management) are female and 55.3% are male. For further details on the employment and labour practices of the Group including gender diversity, please refer to the Environmental, Social and Governance Report on pages 45 to 69 of this report.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman of the Board and the chief executive officer (the "CEO") were both Mr. MCLENNAN. Such practice deviates from code provision C.2.1 of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules. The Board believes that vesting the roles of both the chairman of the Board and the CEO in the same person can facilitate the execution of the Group's business strategies and boost effectiveness of its operation. Taking into account Mr. MCLENNAN's substantial experience and leadership position in the management of the Company, the Board considers that Mr. MCLENNAN acting as both the chairman of the Board and the CEO of the Company enables effective management of the Company and is in the interest of the Group and the Shareholders as a whole. In addition, the Board currently comprises five executive Directors, one non-executive Director and five independent non-executive Directors. The Board will remain appropriately structured with balance of power to provide sufficient checks and supervision to protect the interests of the Company and the Shareholders.

BOARD COMMITTEES

Audit Committee

The Company established the Audit Committee with written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and paragraph C.3.3 of the CG Code pursuant to a resolution of the Directors passed on 19 June 2018. The primary duties of the Audit Committee are, among other things, to make recommendations to the Board on the appointment, reappointment and removal of external auditors, review the financial statements and provide advice in respect of financial reporting, oversee our financial reporting process, internal control, risk management systems and audit process, and perform other duties and responsibilities assigned by the Board.

The Audit Committee comprises Mr. SO Alan Wai Shing (chairman), Mr. NICHOL (resigned with effect from 27 May 2022), Ms. KESEBI (resigned with effect from 27 May 2022), Mr. SZUTU (appointed with effect from 27 May 2022) and Mr. MAK (appointed with effect from 27 May 2022), all being independent non-executive Directors.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Audit Committee held four meetings during the Year for the purposes of, among other things, review the annual financial results for the year ended 31 December 2021, the first quarterly, interim and third quarterly financial results for 2022, respectively before submission to the Board. It also reviewed the activities of the Group's risk management and internal control functions and recommended improvements. The details of the attendance are set out below:

Audit Committee Members	Attendance/ Number of meetings
Mr. SO Alan Wai Shing (Chairman)	4/4
Mr. Roderick Donald NICHOL (resigned with effect from 27 May 2022)	1/2
Ms. Lale KESEBI (resigned with effect from 27 May 2022)	2/2
Mr. Tom SZUTU (appointed with effect from 27 May 2022)	2/2
Mr. Kurt Kwai Ching MAK (appointed with effect from 27 May 2022)	2/2

The Audit Committee has also reviewed the consolidated financial statements of the Group for the year ended 31 December 2022 and is of the opinion that such consolidated financial statements complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rule 5.35 of the GEM Listing Rules and paragraph B.1.2 of the CG Code pursuant to a resolution of the Directors passed on 19 June 2018. The primary duties of our Remuneration Committee are to review and approve the management's remuneration proposals, make recommendations to the Board on the remuneration package of the Directors and senior management and ensure none of the Directors determines his/her own remuneration.

The Remuneration Committee comprises Mr. MCLENNAN, being an executive Director, and independent non-executive Directors namely Mr. SO Alan Wai Shing, Mr. NICHOL (resigned with effect from 27 May 2022), Ms. KESEBI (resigned with effect from 27 May 2022), Mr. MAK (appointed with effect from 27 May 2022) and Mr. SZUTU (appointed with effect from 27 May 2022). Mr. NICHOL is the chairman of the Remuneration Committee until his resignation on 27 May 2022, whose vacancy was filled by Mr. MAK on the same date.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Remuneration Committee held two meetings during the Year for the purposes of, among other things, considering and approving the remuneration packages of the senior management. The details of attendance are set out below:

Remuneration Committee Members	Attendance/ Number of meetings
Mr. Roderick Donald NICHOL (<i>Chairman</i>) (resigned with effect from 27 May 2022)	2/2
Mr. John Warren MCLENNAN	2/2
Ms. Lale KESEBI (resigned with effect from 27 May 2022)	2/2
Mr. SO Alan Wai Shing	2/2
Mr. Tom SZUTU (appointed with effect from 27 May 2022)	N/A
Mr. Kurt Kwai Ching MAK (<i>Chairman</i>) (appointed with effect from 27 May 2022)	N/A

Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with paragraph A.5.2 of the CG Code pursuant to a resolution of the Directors passed on 19 June 2018. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, and select or make recommendations on the selection of individuals nominated for directorships.

The Nomination Committee comprises Mr. SO Alan Wai Shing, Mr. NICHOL (resigned with effect from 27 May 2022), Ms. KESEBI (resigned with effect from 27 May 2022), Mr. SZUTU (appointed with effect from 27 May 2022) and Mr. MAK (appointed with effect from 27 May 2022), all being independent non-executive Directors. Ms. KESEBI was the chairperson of the Nomination Committee until her resignation on 27 May 2022, whose vacancy was filled by Mr. SZUTU on the same date.

Pursuant to the terms of reference of the Nomination Committee, there is no mandatory requirement of the minimum number of meetings each year. The Committee members may call any meetings at any time when necessary or desirable. The Nomination Committee held one meeting during the Year for the purposes of nomination of new Director candidates for the consideration by the Board. The details of the attendance are set out below:

Nomination Committee Members	Attendance/ Number of meetings
Ms. Lale KESEBI (Chairperson) (resigned with effect from 27 May 2022)	1/1
Mr. Roderick Donald NICHOL (resigned with effect from 27 May 2022)	1/1
Mr. SO Alan Wai Shing	1/1
Mr. Tom SZUTU (<i>Chairman</i>) (appointed with effect from 27 May 2022)	N/A
Mr. Kurt Kwai Ching MAK (appointed with effect from 27 May 2022)	N/A

CORPORATE GOVERNANCE REPORT (CONTINUED)

ACCOUNTABILITY AND AUDIT

Directors' and Auditor's responsibilities for the Consolidated Financial Statements

All Directors acknowledge their responsibility to prepare the Group's consolidated financial statements which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows and are properly prepared on a going concern basis in accordance with the applicable accounting standards, with disclosures required under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Company Ordinance**"), and the GEM Listing Rules. The responsibility of the Company's auditor, Baker Tilly Hong Kong Limited is set out in the section headed "Independent Auditor's Report" of this annual report.

The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they 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.

Auditors' remuneration

The remuneration paid to the auditor of the Company, Baker Tilly Hong Kong Limited and its affiliates, for audit and non-audit services for the Year were as follows:

Nature of services	Fees paid/payable (HK\$'000)
Audit services	892
Other assurance services	14
Other non-audit and assurance services	270
Total	<u>1,176</u>

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the establishment, maintenance and review of the Group's system of internal controls and risk assessment. The Group has established internal control systems including but not limited to corporate governance, operations management, human resources and finance.

Code Provision C.2.5 of the CG Code stipulates that the Group should have an internal audit function. However, taking into account of the size, nature and complexity of the Company's operations, the Group considers that the current organisation structure and management could provide adequate risk management and internal control of the Group. Therefore, the Group does not have an internal audit function during the Year. Instead, a review of internal controls systems of different operations was conducted by BT Corporate Governance Limited, an independent external risk advisory firm to ensure the effectiveness and adequacy internal controls system.

The Board also conducted an annual review on the administration and the adequacy of the risk management and internal control systems and considered them adequate and effective during the Year.

CORPORATE GOVERNANCE REPORT (CONTINUED)

COMPANY SECRETARIES

Mr. FU Chi Wing Jason had been the Company Secretary of the Company since 5 February 2018 and was redesignated as Joint Company Secretary on 20 December 2022 following the appointment of Mr. WONG Ka Man, another Joint Company Secretary on the same date. Mr. FU resigned as Joint Company Secretary with effect from 15 March 2023, and Mr. WONG became the sole Company Secretary and was appointed as an executive Director on that date. The biographical details of Mr. WONG are set out under the section headed “Directors and Senior Management” of this annual report.

The primary duties of the Company Secretary include, but are not limited to, the following: (i) to ensure the Board procedures are followed and that the activities of the Board are carried out efficiently and effectively; (ii) to assist the Chairman to prepare agendas and Board papers for meetings and disseminate such documents to the Directors and Board committees in a timely manner; (iii) to timely disseminate announcements and information relating to the Group; and (iv) to maintain formal minutes of the Board meetings and other Board committee meetings.

Mr. FU and Mr. WONG have been in full compliance with the requirements of Rule 5.15 of the GEM Listing Rules during the Year, with no less than 15 hours of relevant professional training.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting requisitioned by shareholders

Pursuant to the Articles of Association of the Company, the Board may whenever it thinks fit call extraordinary general meetings. Extraordinary general meeting shall be convened on the requisition by one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward enquiries to the Board

Shareholders of the Company may put forward enquiries to the Board in writing to Units 1202–1204, Level 12, Cyberport 2, 100 Cyberport Road, Hong Kong for the attention of the Company Secretary, or contact the Hong Kong Share Registrar of the Company, Tricor Investor Services Limited for any enquiries about their shareholdings and entitlements to dividend.

Procedures for putting forward proposals at Shareholders' Meetings

There is no provision for shareholders to propose resolutions at a general meeting under the Cayman Islands Companies Law. However, shareholders can follow the above procedure and request to convene extraordinary general meeting.

CORPORATE GOVERNANCE REPORT (CONTINUED)

INVESTOR RELATIONS

The Company has established various communication channels with its shareholders and the public. It includes annual general meeting, publishing annual, interim and quarterly reports, announcements and circulars on the websites of the GEM and the Company.

The Company has adopted its second amended and restated Articles of Association following the passing of a special resolution at the 2022 EGM dated 30 September 2022. Such amended Articles, have among others, (i) allowed a general meeting to be held as an electronic meeting (also referred to as virtual general meeting) or a hybrid meeting, (ii) brought the Articles in line with amendments made to the GEM Listing Rules and applicable laws of the Cayman Islands; and (iii) made certain minor housekeeping amendments to the Articles for the purpose of clarifying existing practice and making consequential amendments in line with the Articles.

To provide timely and effective communication, the Company maintains a corporate website (www.pacificlegendgroup.com) where information and updates on the Company's financial information, corporate governance practices and other information are available for public access.

Overall, the Board considers the shareholders' communication policy of the Group to be effective and adequate. The Board will continue to review the implementation and effectiveness of the shareholders' communication policy by shareholders' feedback from the above channel.

DIVIDEND POLICY

The Company has established a dividend policy (the "**Dividend Policy**") which was adopted by the Board to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its profits as dividends to the shareholders of the Company.

In considering the payment of dividends, there shall be a balance between retaining adequate reserves for the Group's future growth and rewarding the shareholders of the Company.

The Board shall also take into account, among other things, the following factors when considering the declaration and payment of dividends:

- the Group's overall results of operation, financial condition, expected working capital requirements and capital expenditure requirements, liquidity position and future expansions plans;
- the amount of retained profits and distributable reserves of the Company;
- general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and
- any other factors that the Board may deem relevant and appropriate.

The declaration and payment of dividends by the Company is subject to any restrictions:

- under the Companies Law of the Cayman Islands, the Company's Memorandum and Articles of Association, the GEM Listing Rules and any other applicable laws and regulations; or
- under any financial covenants imposed by the Group's bankers or contracting parties.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Company does not have any pre-determined dividend distribution ratio. The Company's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

The Dividend Policy shall in no way constitute a legally binding commitment by the Group in respect of its future dividend and/or in no way obligate the Group to declare a dividend at any time or from time to time.

The Board will continually review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and modify the Dividend Policy at any time.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SCOPE AND BOUNDARY

Pacific Legend Group Limited (the “**Company**”, together with its subsidiaries, collectively as the “**Group**”, “**we**” or “**us**”) is pleased to present its Environmental, Social and Governance (“**ESG**”) Report. The ESG Report aims to provide an overview of our performance in respect of environmental protection, social involvement, engagement with stakeholders and sustainable development. Relevant figures are recorded and collected from our offices and retail shops in Hong Kong, the United Arab Emirates (the “**UAE**”) and the Mainland China (the “**PRC**”) from 1 January 2022 to 31 December 2022 (the “**Year**”).

REPORTING STANDARDS

The ESG Report is prepared in compliance with the applicable disclosure requirements of Appendix 20 — the Environmental, Social and Governance Reporting Guide (the “**Guide**”), under the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”).

The report complies with all provisions of “Mandatory Disclosure” and “Comply or Explain”, as well as the principles of materiality, quantitative, balance and consistency. In preparing the Report, the Group has adopted the international standards and emission factors specified in the guidance materials on ESG issued by the Stock Exchange for computing the relevant Key Performance Indicators (“**KPIs**”)¹, and there is no change from previous year in the way the Report has been prepared. The application of materiality is detailed in the subsection headed “ESG Management — Materiality Assessment”.

SOURCE OF DATA AND RELIABILITY STATEMENT

The information disclosed in the Report is from the Group’s internal documents, statistical reports and relevant public materials. The Group undertakes that the Report does not contain any false information, misleading statement or material omission, and takes responsibilities for the contents hereof as to the authenticity, accuracy and completeness.

ACCESS TO THIS ESG REPORT

This ESG Report is written in both English and Chinese, and in case of discrepancy between the two versions, the English version shall prevail.

FEEDBACK AND OPINIONS

We sincerely welcome your feedback on our ESG Report and our sustainability performance, please contact us by any of the following means to share your opinions with us:

Address:

Units 1202–1204, Level 12, Cyberport 2, 100 Cyberport Road

Hong Kong

Phone: (852) 2552 3500

E-mail: info@pacificlegendgroup.com

¹ How to prepare an ESG Report? — Appendix 2: Reporting Guidance on Environmental KPIs, https://www.hkex.com.hk/-/media/HKEX-Market/Listing/Rules-and-Guidance/Environmental-Social-and-Governance/Exchanges-guidance-materials-on-ESG/app2_envirokpis.pdf

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

APPROACH

In order to manage ESG-related risks and opportunities, the Board of Directors of the Company (the “**Board**”) takes the initiative to formulate the overall ESG strategy. The management of the Group (the “**Management**”) is authorised by the Board to review and monitor the ESG policies and practices of the Group to ensure compliance with relevant legal and regulatory requirements, monitor and respond to emerging ESG issues, and make recommendations to the Board, where appropriate, to improve the ESG performance of the Group.

The Board is dedicated to improving and developing the ESG strategy which is functioning in the best interests of our stakeholders. Under the section “Stakeholders’ Engagement”, the mechanism and the logic of stakeholders’ involvement in developing our ESG strategy are clearly stated.

We incorporate the concept of sustainability into our ESG strategy and day-to-day operations. We believe that prudent management of environmental and social issues is a key factor in long-term success in this rapidly changing world. To address the global concern about climate change that affects not only the environmental systems but also our daily lives, the Group has considered the climate-related issues and incorporated them into our risk management system to enhance our resilience and adaptive capacity to potential climate change impacts. All potential risks that may have an impact on the Group’s businesses will be covered and evaluated in the annual enterprise risk assessment. With a better understanding of the risks and opportunities regarding environmental protection, the Group endeavors to reduce wastage, preserve the planet for future generations, and respond to the regulatory authorities’ expectations for environmental protection.

We believe that “*Live Beautifully*” is not only our business philosophy but an ultimate goal for mankind. With continuous improvement, we aim to move with our stakeholders towards a more sustainable future and good quality of life for both today and future generations.

GOVERNANCE STRUCTURE

Board

- The Board is responsible for the overall decision-making, oversees the formulation, administration, and assessment of the ESG system.

Functional
Department

- Functional department is responsible for the execution of implemented measures to achieve the set strategies and targets.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

STAKEHOLDERS' ENGAGEMENT

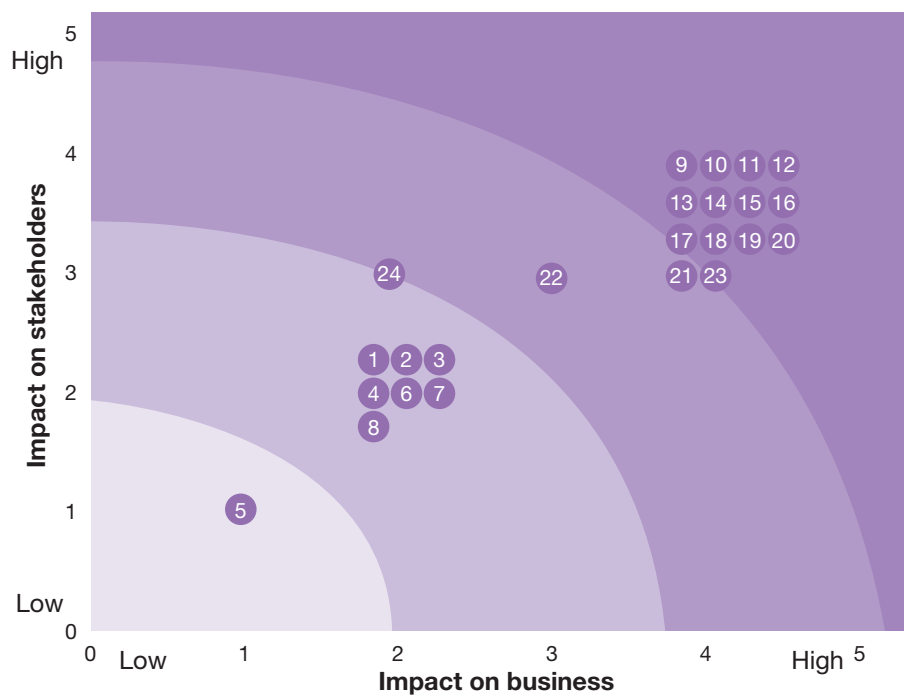
We believe that communication with stakeholders plays an important role in sustaining our business success, so we actively seek to understand and interact with our stakeholders including but not limited to the suppliers, customers, employees, investors, and government. Through continuous communication with our stakeholders, we come to understand the points of concern of each of them through different channels in order to develop mutually beneficial relationships and promote sustainability. We would like to align our ESG strategy with the stakeholders' expectations and concerns, and also balance the interests among the Group and our stakeholders. The topics that stakeholders may be concerned about and the ways we communicate and respond are listed below:

Stakeholders	Probable Points of Concern	Communication and Responses
Hong Kong Exchanges and Clearing Limited ("HKEX")	Compliance with the GEM Listing Rules, and timely and accurate announcements.	Meetings, training, workshops, programs, website updates, and announcements.
Government	Compliance with laws and regulations, preventing tax evasion, and social welfare.	Interaction and visits, and tax returns and other information.
Investors	Transparency, corporate governance, business strategies and performances, sustainable profitability, and investment returns.	Shareholders' meetings, issue of financial reports or operation reports for investors, and timely disclosure.
Media & Public	Corporate governance, environmental protection, and human rights.	Issue of newsletters on the Company's website.
Suppliers	Payment schedule, and stable demand.	Regular meetings, supplier conferences, phone calls and interviews.
Customers	Service quality, reasonable prices, commercial credibility, product safety, and personal data protection	After-sales services, clients' enquiries handling mechanism, rapid website updates.
Employees	Rights and benefits of employees, compensations, training and development, and working environment.	Conducting union activities, training, interviews with employees, and employee suggestion boxes.
Community	Community environment, employment opportunities, community development, and social welfare.	Participation in community activities, employee voluntary activities, and community welfare subsidies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

MATERIALITY ASSESSMENT

The Group has identified ESG issues that have a potential or actual impact on its sustainable development from various sources, such as issues identified in previous ESG Report, internal policies, industry trends, and the Sustainability Accounting Standards Board's Materiality Map². The ESG issues have been analysed with reference to an array of factors, including the Group's overall strategy, development, and goals and targets. The Group has conducted a materiality assessment to rate the identified ESG issues that are pertinent to its business and stakeholders, and their respective levels of impact. The ESG issues have been prioritised as follows:



ESG Issues

ESG issues

1	Emission	13	Development and Training
2	Greenhouse Gas Emission	14	Labour Standards
3	Non-Hazardous Waste	15	Supply Chain Management
4	Energy Consumption	16	Supplier Location
5	Water Consumption	17	Supplier Engagement
6	Packaging Material Consumption	18	Product Responsibility
7	Environment & Natural Resources	19	Product Related Complaints
8	Climate Change	20	Intellectual Property
9	Employment	21	Quality Assurance
10	Employee Turnover	22	Privacy Protection
11	Health and Safety	23	Anti-corruption Awareness
12	Work Injuries	24	Community Investment

² Sustainability Accounting Standards Board's Materiality Map, <https://materiality.sasb.org/>

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

OUR BUSINESS

With more than 40 years of dedication, development, and expansion, we have been trading under our current brand “Indigo” since 2004. In addition to the Hong Kong market, we have established subsidiaries in the UAE and the PRC for conducting business in the respective regions. We primarily operate 3 business lines to suit the needs of both our retail and corporate clients, namely, (1) sale of home furniture and accessories, (2) rental of home furniture and accessories, and (3) project and hospitality services.

Under the sale of home furniture and accessories, we have a special line of products, especially for kids to capture a niche market position.

A. ENVIRONMENTAL

Environmental Compliance

We comply with all relevant laws and regulations that relate to environmental protection in Hong Kong, the PRC, and the UAE which have a significant impact on us, including but not limited to, Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong), Environmental Protection Law of the People’s Republic of China (“中華人民共和國環境保護法”), Atmospheric Pollution Prevention and Control Law of the People’s Republic of China (“中華人民共和國大氣污染防治法”) and Federal Law 24 of 1999 for the Protection and Development of the Environment (the “**Environmental Law**”) in the UAE. During the Year, no confirmed non-compliance incidents or grievances were noted by us in relation to environmental issues.

Air Emissions

We are principally engaged in the sale of home furniture and accessories, rental of home furniture and accessories, and provision of interior design services with furniture facilities as well as hospitality services. We have a fleet of vehicles for serving our management team members and transportation of goods from warehouses to customers’ designated locations. As such, our major air pollutants are generated from the operation of vehicles. All vehicles are under regular maintenance check to facilitate fuel consumption efficiency, which ensures road safety and keeps air emissions at their minimum. The major air pollutants emitted from vehicles include nitrogen oxides, sulphur oxides, and respiratory suspended particles.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The air pollutants emission during the Year is as follows:

Air Pollutants	Unit	Year ended	Year ended
		31 December	31 December
		2022	2021
		Total	Total
Nitrogen Oxides	g	382,837.98	316,283.40
Sulphur Oxides	g	505.42	348.32
Particulate Matter	g	31,834.68	25,665.73

Due to the expansion of our UAE retail business, and the relocation of the warehouse in Hong Kong and the UAE during the Year, the use of vehicles for the purpose of delivery of goods has increased accordingly, which attributed to the increase of emissions of Nitrogen Oxides, Sulphur Oxides and Particulate Matter. The Group will put continuous efforts in monitoring the emissions from vehicles, and at the same time comply with the relevant regulations regarding the vehicle usage within the Group for the sake of emission reduction.

Greenhouse Gases Emissions

We recognise that greenhouse gas (“GHG”) emissions would lead to climate change which imposes a threat to society and our business operations. As such, we are committed to monitoring and mitigating its effects. During the Year, the Group’s direct GHG emissions resulted principally from the combustion of fuels by vehicles, while indirect emission sources were fundamentally from the consumption of electricity and air business travel by its employees. During the Year, the GHG emissions of the Group amounted to 453.77 tonnes (2021: 467.40 tonnes), in which there was a decrease of approximately 3%. The GHG emission intensity totalled 32.42 tonnes (2021: 23.37 tonnes) per location and 2.85 tonnes (2021: 2.80 tonnes) per staff, in which there was an increase of 39% per location and an increase of 2% per staff. The increase in intensity per location and per staff was in line with the increase of air pollution emission for the reason as mentioned above.

The GHG emission³ during the Year is as follows:

Year ended 31 December 2022

Scope of GHG Emission	Emission Sources	Emission (in tonnes of CO ₂ e)	Emission (in tonnes of CO ₂ e) per Location ⁴	Emission (in tonnes of CO ₂ e) per staff
Scope 1				
Direct Emission	Vehicle Fuel Combustion	87.71	6.27	0.55
Scope 2				
Indirect Emission ⁵	Purchased Electricity	359.80	25.70	2.26
Scope 3				
Other Indirect Emission	Business Air Travel	6.26	0.45	0.04
Total GHG Emission		453.77	32.42	2.85

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Year ended 31 December 2021

Scope of GHG Emission	Emission Sources	Emission (in tonnes of CO ₂ e)	Emission (in tonnes of CO ₂ e) per Location ⁴	Emission (in tonnes of CO ₂ e) per staff
Scope 1				
Direct Emission	Vehicle Fuel Combustion	57.51	2.88	0.34
Scope 2				
Indirect Emission ⁵	Purchased Electricity	408.49	20.42	2.45
Scope 3				
Other Indirect Emission	Business Air Travel	1.40	0.07	0.01
Total GHG Emission		467.40	23.37	2.80

The Group is committed to reducing the impact of its operation on carbon footprints and aims to maintain the GHG emissions intensity no higher than the current year (2022) level per location and per staff respectively in the next year through adopting the following mitigating measures.

In order to reduce the generation of greenhouse gases, we educate our employees about the concept of energy efficiency. For the details of energy-efficient practices, please refer to the section headed "Energy Efficiency".

³ GHG emissions include the emissions of carbon dioxide (CO₂) and CO₂ equivalent (CO₂e) emissions of other GHG emitted such as methane and nitrous oxide.

⁴ Locations include retail shops and offices, with a total of 14 within the Year. (2021: 20 locations).

⁵ According to the Sustainability Reports published by HK Electric and CLP in 2021, the carbon footprint per kWh of electricity sold was 0.71 kg and 0.39 kg respectively. According to The Ministry of Ecology and Environment of People's Republic of China (2019), the National Emission Factors for Mainland China is 0.5703 t-CO₂/MWh. The carbon dioxide emissions factor applied in the UAE is 0.4744kg CO₂/kWh for DEWA-supplied electricity.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Waste Management

We comply with all relevant laws and regulations in relation to waste management that have a significant impact on us, including but not limited to, “Law of the People’s Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste” (“中華人民共和國固體廢物污染環境防治法”). No confirmed material non-compliance incidents or grievances in relation to waste management were noted by us.

As our core business is the sale of home furniture and accessories, there is no significant hazardous waste generated during the ordinary course of business operations, and therefore, no data with regard to hazardous waste was recorded during the Year.

On the other hand, the major non-hazardous waste produced by us results from our disposed furniture and paper consumption for administrative work. To minimise the generation of disposed furniture, furniture with minor scratches was sold at discount instead of wasting the materials and dumping them into landfills. We also try to approach some non-governmental organisations and donate furniture to them if they need it.

The wastes generated during the Year is as follows:

Non-hazardous wastes	Unit	Year ended	Year ended
		31 December	31 December
		2022	2021
		Total	Total
Disposed furniture	tonnes	2.79	1.71
Intensity	tonnes per location ⁴	0.20	0.09
Intensity	tonnes per staff	0.02	0.01
Office Paper	tonnes	0.48	1.45
Intensity	tonnes per location ⁴	0.03	0.07
Intensity	tonnes per staff	0.003	0.01

The Group actively advocates the idea of a green and sustainable working environment and adheres to the principle of “four ‘Re’ actions in environmental protection” (reduce, reuse, recycle and replace) in our daily operation, which aims to minimise the generation of wastes and make full use of resources. To reduce furniture disposal, furniture with minor scratches is sold at discount instead of dumping them into landfills. Donation of furniture to non-governmental organisations serves as an opportunity to enhance resource utilisation.

The Group will make continuous efforts in maintaining the intensity of disposed furniture and paper consumption no higher than the current year (2022) level per location and per every staff respectively in the next Year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Furthermore, we are committed to reducing the use of copier paper for internal administrative work. The following measures are adopted in our daily operations:

- Double-sided printing is set as the default settings on computers, and single-sided printing has to be manually selected;
- For any paper that has been used for single-sided printing, it should be reused when there is no confidential information on the printed side of the paper; and
- Staff members are encouraged to circulate documents through electronic means such as email or encrypted universal serial bus.

As a result of our office paper reduction initiatives as mentioned above, the office paper consumption during the Year has dropped as compared to the previous year.

Use of Resources

In order to uphold sustainability in our daily operations, we are committed to upholding a high environmental standard by incorporating relevant requirements under applicable laws and regulations into our daily practices.

We closely monitor the uses of resources, develop measures to reduce electricity consumption, and promote environmental sustainability among employees. This is to ensure that all employees understand the importance of conserving energy and making full use of the available resources in our operations.

Energy Efficiency

Electricity is mainly consumed for the air-conditioning system, lighting system, and electronic office equipment for all of our offices and retail shops in Hong Kong, the PRC, and the UAE. During the Year, the total amount of fuels consumed by vehicles, which included the consumption of diesel and gasoline, totalled 335,107.39 kWh (2021: 230,818.45 kWh), with an intensity of 23,936.24 (2021: 11,540.92) kWh per location. The units of electricity purchased from electricity providers totalled 440,257.00 kWh (2021: 728,540.00 kWh), with an intensity of 31,446.93 (2021: 36,427.00) kWh per location. The total intensity of fuel consumption during the Year was 55,383.17 (2021: 47,967.92) kWh per location, which indicated an increase of approximately 15%.

The minor increase in energy consumption intensity was attributed to the growth of the UAE retail business as mentioned above. The Group will make continuous efforts in working towards the target of maintaining or reducing the total fuel consumption intensity per location between 90% to 115% of the level of baseline year ended 31 December 2022 in the next year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Electricity consumption during the Year is as follows:

	Unit	Year ended 31 December 2022 Total	Year ended 31 December 2021 Total
Fuel consumption	kWh	335,107.39	230,818.45
Intensity	kWh/location ⁴	23,936.24	11,540.92
Electricity consumption	kWh	440,257.00	728,540.00
Intensity	kWh/location ⁴	31,446.93	36,427.00
Total intensity	kWh/location ⁴	55,383.17	47,967.92

We also advocate energy efficiency and environmental preservation. We educate our staff members to shut down electronic devices before leaving office. In the case where the job demands overtime work, staff members need to register with the IT team if they need to keep the electronic devices with power-on after office hours. The IT team monitors the on/off status of each of the electronic devices from the backend to ensure that all electronic devices have been switched off properly.

Our staff have developed energy-efficient practices. The last staff member who leaves the office or the retail shop is responsible for ensuring that the air-conditioning system and electronic devices in the office and the retail shop are switched off.

In choosing electronic devices, energy efficiency is one of the evaluation criteria. We prioritise energy-efficient products not only do they consume less energy, but these products also help protect the environment and save money in the long run.

Water Usage

Water resources are mainly used in offices and retail shops in Hong Kong, the PRC, and the UAE. We do not have any issues in sourcing water, and the existing supply of water meets our daily operational needs. Due to our business nature, the Group's water consumption is minimal. The use of water is mainly for cleaning and sanitation. In order to reduce water wastage, we actively promote water conservation awareness among our employees. For instance, staff are reminded to turn off the faucets tightly after use. As the water charges of some locations are included in the management fees, we are unable to collect and disclose relevant water usage records.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Packaging

Due to the Group's business nature, packaging materials were used during the delivery of furnitures to customers, which included but not limited to stretch films, corrugated boards, polythene roll, corrugated roll, packing tape, bubble roll and wrapping paper. During the Year, the Group consumed a total of 16.96 (2021: 13.58) tonnes of packaging materials, which indicated an increase of approximately 25%. The Group is aware of the increase in packaging materials consumption, which is attributed to the higher operational needs and an increased number of finished products during the Year. To minimise the use of packaging materials, the Group will make efforts in terms of encouraging minimal packaging for the delivery of furniture goods and aim to reduce the amount of packaging materials consumed in the coming reporting years.

Environment and Natural Resources

As a furniture retailer, there is no significant consumption of natural resources. However, we are aware of potential resource consumption along the supply chain. To uphold sustainability, we select vendors that are environmentally and socially conscious. Details of vendor selection criteria are set out in the section "Supply Chain Management".

Climate Change

The Group has considered the potential climate-related risks in respect of the recommendations of the Task Force on Climate-related Financial Disclosures, in which potential physical risk and transition risk from climate change may pose adverse financial impacts on the Group's businesses.

Acute physical risk can arise from extreme weather conditions such as flooding and tropical storms and chronic physical risk can arise from sustained high temperature, while transition risk may result from the change in environmental-related regulations or change in customer preferences. Upon evaluation of the potential acute physical risk that may lead to direct damage to assets and cause disruption to the supply network, our offices and retail stores do not locate in high-risk flood areas, and we maintain a large supplier base so that we can source from alternate suppliers in the event of our suppliers being affected by extreme weather conditions. While the sustained elevated temperature may increase electricity consumption, the Group has adopted energy conservation measures in managing such a risk, which is detailed in the above subsection headed "Environmental – Energy Use Efficiency". As for the potential transition risk, the Group continues to monitor the regulatory environment and the product market to ensure that our products meet customers' and regulatory demands and expectations.

It is expected that potential extreme weather conditions, sustained elevated temperature, and change in environmental-related regulations and customer preference do not have a material impact on the Group's operation. Nevertheless, the Group continues to monitor the climate-related risks and implemented relevant measures to minimise the potential physical and transition risks.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

B. SOCIAL

Employment and labour practices

We comply with all relevant laws and regulations in relation to employment in Hong Kong, the PRC and the UAE which have a significant impact on us, including but not limited to, the “Employment Ordinance (Chapter 57 of the Laws of Hong Kong, the “**Hong Kong Employment Ordinance**”), Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) and the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) in Hong Kong, the “Labour Contract Law of the People’s Republic of China (中華人民共和國勞動合同法)” and the “Labour Law of the People’s Republic of China (中華人民共和國勞動法)” in the PRC, and the “Federal Law No. 8 of 1980 (as amended by Federal Laws No. 24 of 1981, No. 15 of 1985, No. 12 of 1986 and No. 8 of 2007 and Ministerial Decree 764, 765 and 766 of 2015) (the “**UAE Labour Law**”) in the UAE. As at 31 December 2022, the Group had approximately 159 employees (2021: 168).

The Group is committed to building a diversified and inclusive working environment to ensure that no employees will be discriminated against or deprived of opportunities due to gender, ethnic background, religious belief, colour, sexual orientation, age, marital status or family status in respect of recruitment and promotion. The Group has specially formulated the rules on the equal opportunities of employment and anti-discrimination and harassment procedures to protect the rights of all employees, so that the employees’ talents can be reflected on, assessed and rewarded fairly.

The Group strictly opposes and prohibits any form of child and forced labour. To avoid forced and child labour, the Human Resources Department performs detailed interview screening procedures on each candidate. A thorough background check is conducted to verify the authenticity of personal data stated on the application forms by examining the applicants’ original identity card and making detailed inquiries to ensure that no child labour can be employed.

If any child labour is discovered, the Group would immediately terminate the contract and investigate the incident. Forced labour is strictly prohibited by the Group with zero tolerance. We shall take disciplinary actions against any employee who are accountable for the causes of the incident. During the Year, the Group did not have any cases of child labour or forced labour.

We have set up human resources policies and procedures in attracting and retaining talents, as well as nurturing an amiable working environment for our staff. We reward and promote individuals based on their performance and development potential. As a non-discriminating employer, we promise to provide equal opportunities for all applicants and employees without consideration of their race, religion, skin colour, nationality, marital status, age, sex, disability, political preference or philosophical belief.

In order to attract and retain high-quality staff and to enable smooth operations, we offer various in-house training courses and competitive remuneration packages to our employees with reference to market conditions and individual employees’ qualifications and experience. Details of employees’ compensation packages and other welfare are stipulated in our staff manual, which is reviewed on a regular basis. The standard working hour of employees are 8 hours per day and 40 hours per week on average with 2 days off. In order to enhance team cohesion and create a harmonious working atmosphere, the Group organises various group activities on a regular basis.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

	Year ended 31 December 2022 Total	Year ended 31 December 2021 Total
Total workforce	159	168
Breakdowns by gender		
Female	71	73
Male	88	95
Breakdowns by age		
<25	6	5
25–29	23	19
30–39	51	74
40–49	48	49
>50	31	21
Breakdowns by employment type		
Full time	157	165
Part time	2	3
Breakdowns by geographical location		
Hong Kong	99	102
The PRC	14	24
The UAE	46	42

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

	Year ended 31 December 2022 Total	Year ended 31 December 2021 Total
Overall turnover	39%	43%
Turnover rate by gender		
Female	42%	62%
Male	36%	28%
Turnover rate by age		
<25	17%	100%
25–29	30%	68%
30–39	51%	41%
40–49	42%	33%
>50	26%	38%
Turnover rate by geographical location		
Hong Kong	43%	49%
The PRC	71%	54%
The UAE	20%	21%

Health and Safety

We comply with all relevant laws and regulations in relation to occupational health and safety that have a significant impact on us, including but not limited to, Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) in Hong Kong and the Occupational Health and Safety Policies as set by the Ministry of Human Resources and Emiratization in the UAE.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The Group has contingency measures in place, which outlines the work arrangements in times of crisis such as typhoons, rainstorms, and serious communicable diseases in the Staff Handbook.

In the midst of the COVID-19 pandemic, the Group has also adopted measures to ensure all practicable preventive and protective measures are in place to minimise occupational risk, including but not limited to employees' and visitors' health declaration, daily temperature check, work from home arrangement, mask-wearing and social distancing requirement, provision of masks and sanitizers.

During the reporting years, there were no reported cases of work injuries case. For the sake of occupational safety measures and the safety of our employees, the Group will make continuous contribution in the aspect of occupational and health education for enhancing employees' awareness of protection and safety, and continue to work on its existing safety policies at the same time.

Development and Training

Training and development are crucial to the personal growth of our staff members and the overall development of the Group. We focus on communicating with employees and listening to their feedback. Through establishing various internal communication channels, including formal performance appraisals and regular meetings between the management and employees, we could better understand the needs of our employees. In response to their needs and career aspirations, we provide support to facilitate the career development of our staff to equip them with the skills that help them pursue their career goals.

In practice, we encourage our staff members to upgrade their skills and knowledge through various forms of training or further education. In this respect, we subsidy our staff with tuition fees for them to pursue external job-related courses.

Staff is given opportunities to acquire new skills and take up different tasks and responsibilities to build up the necessary experience and skill-sets for future promotion and development purposes. Cross-function training and job rotation are available for staff that have the potential and passion for exploring new challenges.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

During the Year, the details of employees who received training are as follows:

	Year ended 31 December 2022 Total	Year ended 31 December 2021 Total
Percentage of employee trained by gender		
Female	50%	0%
Male	50%	100%
Percentage of employee trained by employee category		
Management	0%	0%
Mid-level employee	25%	25%
Junior employee	75%	75%
Average training hours completed per employee by gender		
Female	2.54	0
Male	0.68	0.06
Average training hours completed per employee by employee category		
Management	0	0
Mid-level employee	1.73	0.03
Junior employee	1.56	0.04

Notably, our employee's health and safety are our priority. Due to the adverse impact of the COVID-19 pandemic, to reduce the chances of infection and protect our employees, we decided to keep face-to-face activities at their minimum. To encourage ongoing training and development for our employee, we would send some useful material to our staff for their self-learning. Under the current situation that most of the restrictions on COVID-19 are lifted, the Group aims to organise more trainings to employee for further development.

Labour Standards

We comply with all relevant laws and regulations that have a significant impact on us relating to forced and child labour, including but not limited to, the Hong Kong Employment Ordinance, Provisions on the Prohibition of Using Child Labour (禁止使用童工規定) and Labour Law of the People's Republic of China (中華人民共和國勞動法) in the PRC, and the UAE Labour Law.

To avoid forced and child labour, Human Resources and Administration Department performs detailed interview screening procedures on each candidate. A thorough background check is conducted to verify personal data stated on the application forms by examining the applicants' original identity cards and making detailed inquiries to ensure that we do not employ child labour.

If the management discovered any child labour, we would immediately terminate the contract and investigate the incident. Forced labour is strictly prohibited by the Group with zero tolerance. We are serious about child labour and shall take disciplinary actions against any staff members who are accountable for the causes of the incident.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Supply Chain Management

The Group understands that supply chain management has an inseparable relationship with its sustainable development, and is therefore committed to establishing a long-term and harmonious cooperation relationship with its suppliers. We expect our suppliers to uphold the principles of integrity and pragmatism, and provide products and services in strict compliance with the requirements of applicable laws and regulations concerning both environmental and social aspects. The Group has adopted green procurement to prioritise suppliers which use wood materials containing recovered or recycled wood or source wood materials originating from sustainably managed forests that are certified by internationally recognised standards.

The Group also requires full compliance of suppliers with local laws and regulations.

In order to standardise the procurement procedures and strengthen the monitoring and management of suppliers, the Group has established the Supplier Management Standard Operating Procedure, which includes key measures such as assessments done by multiple teams prior to accepting a supplier as an approved supplier, and also on-going assessments and regular inspections of our approved suppliers.

As mentioned, we select suppliers that are also environmental and socially conscious. In order to understand the daily operations of the suppliers, our team visits their factories regularly, and conduct suppliers' evaluation. During the course of suppliers' evaluation, our quality control team, buying and merchandising team, and design team evaluate the performance of the suppliers from different perspectives. Particularly, the quality control team evaluates the facilities of the suppliers as to whether their equipment and operation method can fulfill the generally acceptable environmental standard.

During the Year, we had a total of 179 suppliers for the provision of furniture supplying materials, in which the key suppliers fall into the region of the PRC, India, Vietnam and Malaysia.

Customer Protection

We comply with all relevant laws and regulations that have a significant impact on us relating to customers' protection, including but not limited to, the "Federal Law No. 24 of 2006 regarding Consumer Protection and the executive regulation as set out in "Cabinet Resolution No. 10 of 2007" (the "**Consumer Protection Laws**") in the UAE, Consumer Goods Safety Ordinance in Hong Kong (Chapter 456 of the Laws of Hong Kong), and The Law on Protection of Consumers Rights and Interests (中華人民共和國消費者權益保護法) in the PRC.

We are committed to providing quality and highly customised furniture that we see safety as one of the key concerns, especially for our dedicated brand, "Indigo Living Kids" which is devoted to children's furniture and bedroom accessories. We are committed to complying with Toys and Children's Products Safety (Additional Safety Standards or Requirements) Regulations in Hong Kong.

Typically, items custom-designed for kids come with chunky handles and avoid sharp corners or edges, and are colourful. Our kids' furniture collection also meets safety standards in the UK and/or Europe, as we request our suppliers to provide documentary proof of meeting the safety standards of the UK and/or Europe.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Advertising and Labelling

We comply with all relevant laws and regulations that have a significant impact on us relating to the message of our products, including but not limited to, Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong). We pay attention to our trade description which includes the quantity, the method of manufacture, processing and/or reconditioning, composition, fitness for purpose and place of origin, etc. During the process of our product inspection checking, we particularly check the carton labels to make sure that the label is accurate and not misleading.

Complaint Handling

We treasure opinions and feedback from our customers on the quality and services we provide. Therefore, we have established “Standard Operation Procedures on Complaint Handling” to ensure that all customers’ concerns regarding our products or services are handled and resolved promptly and efficiently. Relevant investigation is taken and improvement measure is implemented to improve our product and service quality as well as customer experience.

During the Year, the Group received 429 complaints and all have been resolved after the Group has taken the follow-up actions. No products sold or shipped were subject to recalls for safety and health reasons.

Product and Service Responsibility

We have established “Standard Operation Procedures on Quality Control Inspection” to maintain product quality in order to satisfy the expectation of our customers. Suppliers are required to fill in the “Inspection Request Form” to facilitate the inspection check afterwards. Our quality control team conducts pre-shipment inspection to ensure an acceptable product quality level. Inspection is carried out according to MIL-STD-105 standard with level II adopted as our inspection level. We adopt a rigorous quality acceptance standard to avoid receiving defective goods which may be dangerous to consumers or result in a hazardous or unsafe condition to the environment. We insist on a various checking criteria ranging from product safety, product appearance, and product basic function to shipping marks.

We also have a traceability record system in place, all our products are labelled with codes during our production process, which facilitates our easy retrieval of production data with our traceability system. If there are quality issues with our products, our traceability record system enables us to promptly ascertain the source of the defect throughout the production process, identify the defective lot of products and take appropriate remedial measures to rectify the issues and to prevent future recurrence.

To ensure product quality in the long run, damaged goods reports are prepared to record any cases of damaged goods and return items. Monthly meeting is held by merchandising and sales team to review those cases, and then the team follows up with suppliers with the defect rates above industry’s average level.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Data Protection and Privacy

We are committed to protecting data privacy. We act in accordance with applicable data privacy laws that have a significant impact on us when collecting and using personal information provided to us, including but not limited to, “Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) and the Personal Information Protection Law of the People’s Republic of China (中華人民共和國個人信息保護法) in the PRC.

Our privacy policy is uploaded to our website which sets out the policies and practices in the collection, use, sharing and protection of customers’ personal information. Any updates or changes in the policy will be uploaded on the website promptly.

We take reasonable precautions to ensure that personal information of our customers remains confidential and we have reasonable security procedures regarding the storage and disclosure of personal information of our customers.

We have adequate measures to protect customers’ personal information from accidental loss or destruction. We also require our service providers to use personal information of our customers on a confidential basis during the process of providing the specified services to us, and to comply with this privacy policy and applicable legislation.

Intellectual Property Rights

We have registered our trademarks which are important to our business. We regularly monitor the control measures to ascertain whether our trademarks are being infringed. We are committed to protecting intellectual property rights which we handle with great care during our daily operations.

Anti-corruption

We comply with all relevant laws and regulations with regard to anti-corruption in Hong Kong, the PRC and the UAE which have significant impacts on us, including but not limited to, the Prevention of Bribery Ordinance in Hong Kong (Chapter 201 of the Laws of Hong Kong), the Criminal Law of the People’s Republic of China (中華人民共和國刑法), the Anti-Money Laundering Law of the People’s Republic of China (中華人民共和國反洗錢法) in the PRC, and the Articles 234–239 of Federal Law No. 3/1987 (“**Penal Code**”) in the UAE.

We regard honesty, integrity, and fair play as our core values that must be upheld by all Directors and staff at all times. Our “Code of Conduct” (the “**Code**”) lays out the basic standard of conduct expected of all Directors and staff, and the policy on acceptance of advantage and handling of conflict of interests when dealing with our business. Moreover, we prohibit all forms of bribery and corruption. All Directors and staff are prohibited from soliciting, accepting or offering any bribe in conducting the business affairs, whether in Hong Kong or elsewhere. Since the Group’s business is not highly exposed to the risk of corruption, no training of such area was held during the Year. Yet, the Group is capable of providing and subsidising training of anti-corruption when necessary.

Any Director or staff member in breach of the Code will be subject to disciplinary action, including termination of appointment. Any enquiries about the Code or reports of possible breaches of the Code should be made to the Head of Human Resources. In case of suspected corruption or other criminal offences, a full investigation will then be conducted, disciplinary action will be applied to the employees involved upon confirmation of the occurrence, and may extend to further legal action depending upon the nature and particular circumstances of each report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

The above guidelines have been communicated to all staff, and the company culture composing of openness, accountability and integrity among all Directors and employees has been developed. During the Year, no concluded legal cases regarding corrupt practices were brought against the Group or our employees.

During the Year, we did not involve in any legal cases regarding corruption and were not aware of any bribery, extortion, fraud, money laundering, or other violations.

Community Investment

The Group had not organised any community and charity activities during the Year due to the COVID-19 pandemic, which was to ensure the safety of both our employees and the community. Under the latest regulation that the COVID-19 situation have improved and most restrictions are lifted, the Group aims to explore more social welfare actions in the coming reporting years.

HKEX Environmental, Social and Governance Guide Content Index

Aspect	Description	Chapter
A. Environmental		
A1 Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Compliance
KPI A1.1	The types of emissions and respective emissions data.	Air Emissions
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Greenhouse Gases Emissions
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	(Not applicable) ⁶
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Waste Management
KPI A1.5	Description of emissions target(s) set and steps taken to achieve them.	Energy Efficiency
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Waste Management

⁶ Hazardous waste produced is minimal in our businesses.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect	Description	Chapter
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources, Energy Efficiency, Water Usage
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Energy Efficiency
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	(Not applicable) ⁷
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Energy Efficiency
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Water Usage
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Packaging
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environment and Natural Resources
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environment and Natural Resources
A4 Climate Change		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Climate Change
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate Change

⁷ Our operation does not involve consumption of water in significant quantities. Therefore, we are not disclosing this figure.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect	Description	Chapter
B. Social		
B1 Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and labour practices
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	Employment and labour practices
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Employment and labour practices
B2 Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Health and Safety
KPI B2.2	Lost days due to work injury.	Health and Safety
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect	Description	Chapter
B3 Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work.	Development and Training
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Development and Training
KPI B3.2	The average training hours completed per employee by gender and employee category.	Development and Training
B4 Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Labour Standards
KPI B4.1	Description of measures to review employment practices to avoid child and forced labor.	Labour Standards
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
KPI B5.1	Number of suppliers by geographical region.	Supply Chain Management
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect	Description	Chapter
B6 Product and Service Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Customer Protection, Advertising and Labelling, Product and Service Responsibility, Data Protection and Privacy
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Complaint Handling
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Complaint Handling
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property Rights
KPI B6.4	Description of quality assurance process and recall procedures.	Product and Service Responsibility
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Data Protection and Privacy
B7 Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the Year and the outcomes of the cases.	Anti-corruption
KPI B7.2	Description of preventive measures, how they are implemented and monitored.	Anti-corruption
KPI B7.3	Description of anti-corruption training provided to directors and staff.	Anti-corruption

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Aspect	Description	Chapter
B8 Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment
PI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	Community Investment
PI B8.2	Resources contributed (e.g. money or time) to the focus area.	Community Investment

INDEPENDENT AUDITOR'S REPORT



TO THE SHAREHOLDERS OF PACIFIC LEGEND GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Pacific Legend Group Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) set out on pages 78 to 153, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS (CONTINUED)

The Key Audit Matter

How the matter was addressed in our audit

Impairment losses of property, plant and equipment ("PPE"), intangible assets and right-of-use ("ROU") assets held by Hong Kong and Dubai cash generating units ("HK and Dubai CGUs")

Refer to notes 10, 11 and 12 to the audited consolidated financial statements

As at 31 December 2022, the Group's carrying amounts of PPE, intangible assets and ROU assets net of impairment losses amounted to HK\$1,472,000, HK\$36,000 and HK\$1,357,000 (2021: HK\$2,821,000, HK\$440,000 and HK\$4,089,000).

The net impairment losses for the year of HK\$5,652,000, HK\$278,000 and HK\$15,338,000 (2021: HK\$870,000, HK\$3,826,000 and HK\$12,419,000) were allocated to the HK and Dubai CGUs' PPE, intangible assets and ROU asset respectively.

In view of the losses sustained by operations of the HK and Dubai CGUs during the current year, management considered impairment indicators of their PPE, intangible assets and ROU assets existed as at 31 December 2022.

For these CGUs, the management compared the carrying amount of each CGU with its recoverable amount, which was estimated by the value in use calculations with the assistance from an independent professional valuer. The value in use calculation requires the Group to estimate the future cash inflows/outflows expected to arise from the HK and Dubai CGUs by considering the budgeted sales and gross margins which are based on past performance and the management's expectations for future changes in the market and taking into account a suitable discount rate and terminal growth rate to calculate the respective present value.

We focused on this area due to the significance of the balances and the significant judgements involved in the assessment of the recoverable amount of the HK and Dubai CGUs, including the assumptions used in the calculations of value in use.

Our audit procedures in this area included:

- assessed the appropriateness of the key assumptions used in estimating the value in use of the PPE, intangible assets and ROU assets. For revenue growth rates and gross margin, we compared these assumptions to the historical performance of the HK and Dubai CGUs. We also obtained evidence such as indicative sales orders regarding the expected sales which were forecasted in the financial budget. For discount rate, we assessed management's calculation and made reference to other comparable companies. For terminal growth rate, we compared it to the industry research and market data;
- evaluated the independent professional valuer's and consultant's competence, capabilities and objectivity, where applicable;
- compared the current year's actual results with last year's forecast to evaluate the reliability and historical accuracy of management's budgeting process;
- tested the mathematical accuracy of the discounted cash flow model;
- considered the disclosures in the consolidated financial statements in respect of the impairment assessment with reference to the requirements of the prevailing accounting standards; and
- evaluated the sensitivity analysis prepared by the management on the key assumptions used in the cash flow projections to understand the impact of reasonable changes in key assumptions on the estimated recoverable amount of the HK and Dubai CGUs, and to consider if any impairment losses or reversal of impairment losses would be resulted by such reasonable changes. We have also checked the mathematical accuracy of this sensitivity analysis.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS (CONTINUED)

The Key Audit Matter	How the matter was addressed in our audit
<p>Inventory provision</p> <p><i>Refer to note 15 to the audited consolidated financial statements</i></p> <p>At 31 December 2022, the Group had inventories of gross amount HK\$42,884,000 (2021: HK\$37,682,000) against which a provision of HK\$2,667,000 (2021: HK\$1,074,000) was made.</p> <p>Inventory provision requires the management to make significant accounting estimates and judgements. These include identification of damaged, slow moving and obsolete inventories and assessing the level of allowance required by estimating the net realisable value of inventories, which is the actual or estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.</p> <p>We focused on this area because of the magnitude of inventories and the high level of management judgement involved in the estimation of the net realisable value of inventories. These estimations are also subject to uncertainty as a result of change of competitor actions and market conditions.</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> • obtained an understanding of the management's assessment process of provision for inventories; • assessed the reasonableness of the basis used by the management in identifying damaged, slow moving and obsolete inventories; • attended the year end inventory counts to observe the physical conditions of inventories and identify damaged or obsolete inventories; • tested the accuracy of the inventory ageing report, on a sample basis, by checking to the purchase source documents; • tested the net realisable value of inventory items, on a sample basis, to the actual selling price subsequent to the year end; • evaluated the appropriateness of the management's assessment on the estimated future utilisation of inventory items having no subsequent sales with reference to their ageing; and • compared the prior year's estimated inventory provision amount for aged inventory against subsequent sales occurred during the year to identify if significant variance exist in order to evaluate the sufficiency and accuracy of the management's historical estimate on the inventory provision.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS (CONTINUED)

The Key Audit Matter	How the matter was addressed in our audit
<p>Impairment of contract assets and trade receivables</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> • obtained an understanding of the management's assessment process of estimating expected credit loss allowance for trade receivables and contract assets; • evaluated the independent professional valuer's competence, capabilities and objectivity, where applicable; • assessed, on a sample basis, whether items in the receivables ageing report were classified within the appropriate ageing bracket by comparing individual items in the report with the relevant sales invoices; • evaluated the appropriateness of the expected credit loss allowance recorded against the receivables and contract assets and the appropriateness of the Group's expected credit loss allowance, with reference to the ageing of trade receivable balances, economic conditions, concentration of counterparty risk and the past history of debt recovery; and • reviewed subsequent settlement records and challenging the management regarding their reasons for not considering a provision against any unsettled past-due balances.
<p><i>Refer to note 16(a) and 17 to the audited consolidated financial statements</i></p>	
<p>At 31 December 2022, the Group's gross contract assets and trade receivables amounted to HK\$4,395,000 (2021: HK\$5,634,000) and HK\$19,886,000 (2021: HK\$15,161,000) with an allowance for expected credit losses of HK\$840,000 (2021: HK\$2,646,000) and HK\$3,463,000 (2021: HK\$683,000) respectively.</p>	
<p>The management applied the simplified approach to measure the lifetime expected loss allowance for all trade receivables and contract assets by engaging an independent professional valuer. The Group measured the expected credit losses on a collective basis. Those customers with shared credit risk characteristics were grouped into different categories and assessed collectively based on their likelihood of recovery, taking into account the nature of the customers and their geographical location. The professional valuer applied various elements in assessing the expected credit losses, which included forward looking information available to the Group without undue cost, and historical credit loss experience.</p>	
<p>We focused on this area due to its significant balances and because assessment of the recoverability of these receivables and recognition of expected credit loss allowance are inherently subjective and require significant management judgement.</p>	

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTERS (CONTINUED)

The Key Audit Matter	How the matter was addressed in our audit
<p data-bbox="150 523 715 549">Recognition of revenue from project contracts</p> <p data-bbox="150 590 767 653"><i>Refer to notes 2(s)(i)(b), 4 and 16 to the audited consolidated financial statements</i></p> <p data-bbox="150 694 767 896">Revenue from project contracts is recognised progressively over time using the output method, based on direct measurement of the value of the project contract work performed, provided that the value of project contract work performed can be measured reliably.</p> <p data-bbox="150 937 767 1278">We identified recognition of revenue from project contracts as a key audit matter because the stage of project completion is measured by reference to the value of work carried out to date to the total project contract value, including variations in project contract work which involve the management's best estimates and judgement. The actual outcomes of the contracts in terms of the total revenue may be higher or lower than the estimation and this will affect the revenue and profit or loss recognised.</p>	<p data-bbox="796 523 1283 549">Our audit procedures in this area included:</p> <ul data-bbox="796 590 1370 1625" style="list-style-type: none"> <li data-bbox="796 590 1370 692">• obtained an understanding of the management's assessment process of revenue recognition; <li data-bbox="796 733 1370 1073">• compared, on a sample basis, revenue transactions recorded during the year with the underlying contracts and variation orders (if any), delivery reports, invoices and bank-in slips for settled balances and assessing the business substance of the underlying transactions and whether the related revenue had been recognised in accordance with the Group's revenue recognition policies; <li data-bbox="796 1114 1370 1381">• obtained confirmations, on a sample basis, from major customers of the Group to confirm revenue recognised during the year and, for unreturned confirmations, performed alternative procedures by comparing details with project contracts, bank-in slips and other underlying project related documentation; and <li data-bbox="796 1422 1370 1625">• checked calculation of stage of completion, on a sample basis, and performed comparisons between the percentage of completion and the percentage of progress billing on project contracts to identify and investigate any significant differences.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 director on the audit resulting in this independent auditor's report is Tong Wai Hang.

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong, 30 March 2023

Tong Wai Hang

Practising certificate number P06231

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

(Expressed in Hong Kong dollars)

	Note	2022 HK\$'000	2021 HK\$'000
Revenue	4	204,038	244,349
Cost of sales		(97,590)	(113,207)
Gross profit		106,448	131,142
Other income, gains and losses, net	5	9,768	6,757
Selling and distribution costs		(47,445)	(44,665)
Administrative and other operating expenses		(87,055)	(102,232)
Impairment losses on financial assets, net	6	(7,260)	(1,361)
Impairment losses on non-current assets, net	6	(21,268)	(17,115)
Loss from operations		(46,812)	(27,474)
Finance costs	6(a)	(1,074)	(793)
Loss before taxation	6	(47,886)	(28,267)
Income tax (expense)/credit	7	(2)	101
Loss for the year		(47,888)	(28,166)
Other comprehensive expense			
Item that may be classified subsequently to profit or loss:			
— Exchange differences on translation of financial statements of overseas subsidiaries, net of tax		(828)	(294)
Total comprehensive expense for the year		(48,716)	(28,460)
Loss for the year attributable to:			
— Owners of the Company		(46,369)	(28,166)
— Non-controlling interests		(1,519)	—
		(47,888)	(28,166)
Total comprehensive expense attributable to:			
— Owners of the Company		(47,197)	(28,460)
— Non-controlling interests		(1,519)	—
		(48,716)	(28,460)
		HK cents	HK cents
Loss per share			
— Basic and diluted	9	(3.51)	(2.31)

The notes on pages 84 to 153 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022
(Expressed in Hong Kong dollars)

	Note	2022 HK\$'000	2021 HK\$'000
Non-current assets			
Property, plant and equipment	10	1,472	2,821
Intangible assets	11	36	440
Right-of-use assets	12	1,357	4,089
Finance lease receivables	13	1,014	698
Financial assets measured at fair value through profit or loss	14	5,938	6,000
Non-refundable deposit	17	4,000	4,000
		<u>13,817</u>	<u>18,048</u>
Current assets			
Inventories	15	40,217	36,608
Contract assets	16(a)	3,555	2,988
Trade and other receivables	17	48,618	54,884
Finance lease receivables	13	2,939	2,116
Pledged bank deposits	18	3,000	3,000
Cash and cash equivalents	18	17,824	33,390
Tax recoverable		–	279
		<u>116,153</u>	<u>133,265</u>
Current liabilities			
Trade and other payables	19	17,565	19,811
Contract liabilities	16(b)	35,252	15,397
Interest-bearing bank borrowings	20	7,667	859
Lease liabilities	21	13,056	12,987
Tax payable		986	1,075
		<u>74,526</u>	<u>50,129</u>
Net current assets		<u>41,627</u>	<u>83,136</u>
Total assets less current liabilities		<u>55,444</u>	<u>101,184</u>

The notes on pages 84 to 153 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 31 DECEMBER 2022

(Expressed in Hong Kong dollars)

	Note	2022 HK\$'000	2021 HK\$'000
Non-current liabilities			
Lease liabilities	21	8,313	5,499
Provisions	22	7,149	6,987
		<u>15,462</u>	<u>12,486</u>
NET ASSETS		<u>39,982</u>	<u>88,698</u>
Capital and reserves			
Share capital	24	13,200	13,200
Reserves		24,301	71,498
		<u>37,501</u>	<u>84,698</u>
Equity attributable to owners of the Company		37,501	84,698
Non-controlling interests		2,481	4,000
		<u>39,982</u>	<u>88,698</u>
TOTAL EQUITY		<u>39,982</u>	<u>88,698</u>

Approved and authorised for issue by the board of directors on 30 March 2023.

MCLENNAN John Warren
Director

WONG Ka Man
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

(Expressed in Hong Kong dollars)

	Equity attributable to owners of the Company						Total HK\$'000	Non- controlling interest HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000 <i>(note 24 (c)(i))</i>	Share option reserve HK\$'000 <i>(note 24 (c)(ii))</i>	Exchange reserve HK\$'000 <i>(note 24 (c)(iii))</i>	Other reserve HK\$'000 <i>(note 24 (c)(iv))</i>	Accumulated profits/ (losses) HK\$'000			
Balance at 1 January 2021	10,000	67,136	3,874	298	789	7,019	89,116	-	89,116
Loss for the year	-	-	-	-	-	(28,166)	(28,166)	-	(28,166)
Other comprehensive expense	-	-	-	(294)	-	-	(294)	-	(294)
Total comprehensive expense for the year	-	-	-	(294)	-	(28,166)	(28,460)	-	(28,460)
Proceeds from placing of new shares <i>(note 24 (a)(i) and (ii))</i>	3,200	22,240	-	-	-	-	25,440	-	25,440
Issuing expenses of placing of new shares	-	(1,394)	-	-	-	-	(1,394)	-	(1,394)
Capital injection from non-controlling interest	-	-	-	-	-	-	-	4,000	4,000
Share options lapsed	-	-	(856)	-	-	856	-	-	-
Equity settled share-based payments transactions	-	-	(4)	-	-	-	(4)	-	(4)
Balance at 31 December 2021 and 1 January 2022	13,200	87,982	3,014	4	789	(20,291)	84,698	4,000	88,698
Loss for the year	-	-	-	-	-	(46,369)	(46,369)	(1,519)	(47,888)
Other comprehensive expense	-	-	-	(828)	-	-	(828)	-	(828)
Total comprehensive expense for the year	-	-	-	(828)	-	(46,369)	(47,197)	(1,519)	(48,716)
Share options lapsed	-	-	(3,014)	-	-	3,014	-	-	-
Balance at 31 December 2022	13,200	87,982	-	(824)	789	(63,646)	37,501	2,481	39,982

The notes on pages 84 to 153 form part of these consolidated financial statement.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

(Expressed in Hong Kong dollars)

	Note	2022 HK\$'000	2021 HK\$'000
Operating activities			
Loss before taxation		(47,886)	(28,267)
Adjustments for:			
– Bank interest income	5	(28)	(32)
– COVID-19-related rent concessions received	5	(1,756)	(1,206)
– Fair value loss on financial asset at fair value through profit or loss	5	62	–
– Gain on disposal of property, plant and equipment	5	(44)	–
– Written off of expired trade and other payables	5	(1,205)	(172)
– Finance costs	6(a)	1,074	793
– Provision/(reversal of provision) for inventories, net	15	3,607	(848)
– Reversal of share-based payment expenses	6(b)	–	(4)
– Amortisation of intangible assets	6(c)	126	1,219
– Provision for expected credit loss allowance for:			
Contract assets	6(c)	562	1,111
Trade receivables	6(c)	2,837	250
Other receivables	6(c)	3,843	–
Finance lease receivables	6(c)	18	–
– Bad debts written off	6(c)	–	31
– Depreciation of property, plant and equipment	6(c)	4,270	3,198
– Depreciation of right-of-use assets	6(c)	7,383	14,479
– Impairment losses on:			
Property, plant and equipment	6(c)	5,652	870
Intangible assets	6(c)	278	3,826
Right-of-use assets	6(c)	15,338	12,419
– Written off of property, plant and equipment	6(c)	–	5
– Provision for long service payment and employee's end-of-service benefits, net	22	976	545
– Reversal of reinstatement cost	22	(1,833)	–
– Exchange realignment		96	(357)
Operating (loss)/profit before changes in working capital		(6,630)	7,860
(Increase)/decrease in finance lease receivables		(1,159)	661
(Increase)/decrease in inventories		(7,437)	573
(Increase)/decrease in contract assets		(1,631)	2,287
Increase in trade and other receivables		(909)	(18,885)
Decrease in trade and other payables		(901)	(966)
Increase/(decrease) in contract liabilities		20,112	(7,449)
Decrease in provisions		(686)	(1,841)
Cash generated from/(used in) operations		759	(17,760)
Income tax refunded		277	580
Net cash generated from/(used in) operating activities		1,036	(17,180)

The notes on pages 84 to 153 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022
(Expressed in Hong Kong dollars)

Note	2022 HK\$'000	2021 HK\$'000
Investing activities		
Purchase of property, plant and equipment	(7,055)	(2,745)
Bank interest received	28	32
Proceeds from disposals of property, plant and equipment	234	–
Payment for non-refundable deposit	–	(4,000)
Purchase of financial asset at fair value through profit or loss	26(e) –	(6,000)
Net cash used in investing activities	(6,793)	(12,713)
Financing activities		
Proceeds from new bank borrowings	25 8,363	3,825
Repayments of bank borrowings	25 (1,532)	(7,636)
Capital injection from non-controlling interest	–	4,000
Capital element of lease rentals paid	25 (15,328)	(24,880)
Interest element of lease rentals paid	25 (731)	(724)
Interest on bank borrowings paid	25 (343)	(69)
Proceed from placing of new shares, net of issuance expenses	24(a) –	24,046
Net cash used in financing activities	(9,571)	(1,438)
Net decrease in cash and cash equivalents	(15,328)	(31,331)
Cash and cash equivalents at 1 January	33,390	64,490
Effect of foreign exchange rate changes	(238)	231
Cash and cash equivalents at 31 December	17,824	33,390

Non-cash transaction:

In 2021, the disposal of a motor vehicle at net book value of HK\$20,000 sold to a former director (see note 27(b)) was set off with her current account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. GENERAL

Pacific Legend Group Limited (the “**Company**”) was incorporated and registered as an exempted company with limited liability in the Cayman Islands on 1 September 2017. On 18 July 2018, the Company’s shares have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is Units 1202–04, Level 12, Cyberport 2, 100 Cyberport Road, Hong Kong.

The Company and its subsidiaries (together the “**Group**”) is principally engaged in the sale of home furniture and accessories, the leasing of home furniture and accessories and the provision of design consultancy services for fitting out interiors with furnishings.

The Company’s immediate and ultimate holding company is Double Lions Limited (“**Double Lions**”), which is incorporated in the British Virgin Islands (the “**BVI**”).

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), which is also the functional currency of the Company.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”).

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these consolidated financial statements.

A summary of the significant accounting policies adopted by the Group is set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries (together the “Group”).

The measurement basis used in the preparation of the consolidated financial statements is the historical cost, except for the financial assets measured at fair value through profit or loss (“FVPL”) is stated at their fair values (see note 2(e)).

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective in the current accounting period of the Group:

Amendments to HKFRS 3	Reference to the conceptual framework
Amendments to HKAS 16	Property, plant and equipment: Proceeds before intended use
Amendments to HKAS 37	Onerous contracts — costs of fulfilling a contract
Amendments to HKFRSs	Annual Improvement to HKFRSs 2018–2020

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

In the Company's statement of financial position, an investment in a subsidiary is stated as cost less impairment losses (see note 2(i)(ii)).

(e) Financial assets at fair value through profit or loss

Financial assets at FVPL are recognised/derecognised on the date the Group commits to purchase/sell the investment and are initially stated at fair value while transaction costs are recognised directly in profit or loss. The explanation of how the Group determines the fair value of financial assets is set out in note 26(e).

Changes in the fair value of the financial assets at FVPL are subsequently recognised in profit or loss if the investments do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (recycling).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Decoration and fittings	Over the shorter of the unexpired term of lease or 20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%
Furniture for rental	100%

Where parts of an item of property, plant and equipment have different useful lives, the cost is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(i)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated useful life is as follows:

Software	20%
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Both the period and method of amortisation are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) *The Group as a lessee*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(i)(ii)). Depreciation is calculated to write off the right-of-use assets on a straight-line basis over the lease term or where it was likely the Group would obtain ownership of the assets, the life of the assets, as set out in note 2(f).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leased assets (Continued)

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

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("**lease modification**") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that accrued as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modification, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(ii) *The Group as a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2(s)(ii)(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets

(i) Credit losses from financial assets, contract assets and lease receivables

The Group recognises a loss allowance for expected credit losses (“ECLs”) on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits and trade and other receivables), finance lease receivables and contract assets as defined in HKFRS 15 (see note 2(k)). Financial assets measured at FVPL are not subject to ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate; and
- lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets, contract assets and lease receivables (Continued)

Measurement of ECLs (Continued)

Loss allowances for trade receivables, finance lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs 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 and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial assets measured at amortised cost, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial assets since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increase in credit risk

In assessing whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial asset assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial asset's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets, contract assets and lease receivables (Continued)

Significant increase in credit risk (Continued)

Depending on the nature of the financial assets, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial assets are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(s)(ii)(b) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial assets, contract assets and lease receivables (Continued)

Write-off policy

The gross carrying amount of a financial asset, finance lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- right-of-use assets; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit ("CGU")). A portion of the carrying amount of a corporate asset is allocated to an individual CGU if the allocation can be done on a reasonable and consistent basis, or to the smallest group of CGU if otherwise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversal of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are assets which are held for sale in the ordinary course of business. Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchases, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

A right to recover returned goods is recognised for the right to recover products from customers sold with a right of return. It is measured in accordance with the policy set out in note 2(s)(i)(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(s)(i)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in note 2(i)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(l)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(s)(i)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(l)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(s)(i)).

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(k)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see note 2(i)(i)).

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the accounting policy (see note 2(i)(i)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting could be immaterial, in which case they are stated at invoice amount.

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the accounting policy for borrowing costs set out in note 2(u).

(p) Employee benefits

(i) *Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The payment for employees' end-of-service benefits due to employees is made in accordance with the United Arab Emirates (the "UAE") Labour Law for their periods of service up to the reporting date. The provision for the employees' end-of-service benefits is calculated based on their current basic remuneration.

Payments to the state-managed retirement benefit schemes for staff in the People's Republic of China (excluding Hong Kong and Macao) (the "PRC") and to the Mandatory Provident Fund Scheme for staff in Hong Kong are defined contribution retirement benefit payments and are recognised as expense when employees have rendered services entitling them to the contribution.

(ii) *Long service payment payables on cessation of employment*

The Group's net obligation in respect of long service payments payable on cessation in certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services in the current and prior periods. The obligation is calculated using the projected unit credit method, discounted to its present value and reduced by entitlements accrued under the Group's retirement plans that are attributable to contribution made by the Group.

Past service cost is recognised immediately to the extent that the benefits have already been vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits (Continued)

(iii) Share-based payments

The Company operates a share option scheme under which the Group receives services or goods from its directors, employees and other eligible participants as consideration for share options of the Company. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share-based payment reserve within equity. The fair value is measured at grant date using the Binomial Tree model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share capital and share premium account) or the option expires (when it is released directly to accumulated losses). Where a share option is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the share options is recognised immediately.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Provisions for the costs to restore leased assets to their original condition, as required by the terms and conditions of the lease, are recognised at the date of inception of the lease at the directors' best estimate of the expenditure that would be required to restore the assets, estimates are regularly reviewed and adjusted as appropriate for new circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

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

(i) Revenue from contracts from customers

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

(a) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(b) Project contracts

When the outcome of a project contract can be reasonably measured, revenue from the project contract is recognised progressively over time using the output method, based on direct measurement of the value of project contract work performed, provided that the value of project contract work performed can be measured reliably. The value of project contract work performed is measured according to the completion of specific detailed components as set out in the project contract. Variations in project contract work are recognised as project contract revenue to the extent that the modification has been approved by the parties to the project contracts and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the project contract cannot be reasonably measured, revenue is recognised only to the extent of project contract costs incurred that are expected to be recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue and other income (Continued)

(i) Revenue from contracts from customers (Continued)

(c) Income from franchising

Franchise income is recognised over time in accordance with the terms of franchise agreements. Income from provision of services to franchisees is recognised at a point in time when services are provided.

(ii) Revenue from other source and other income

(a) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

(b) Interest income

Interest income is recognised as it accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost, the effective interest rate is applied to the gross amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of expected credit loss allowance) of the asset (see note 2(i)(i)).

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The translation date is the date on which the Company initially recognised such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Related parties

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

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

(w) Segment reporting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Segment reporting (Continued)

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

3. ACCOUNTING JUDGEMENT AND ESTIMATES

In the application of the Group's accounting policies, which are described in note 2, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

(i) Control over a subsidiary

As set out in note 28(a)(i), the Group is the legal owner of 49% of the issued share capital of Indigo Living LLC ("**Indigo Dubai**") and has control over it. The Group is entitled to share 80% of Indigo Dubai's profit or loss under the notarised memorandum of association of Indigo Dubai, and the remaining 20% under the contractual arrangements. However, due to the foreign ownership restriction under the UAE law, the relevant contractual arrangements could be unilaterally challenged before a UAE court. So far, the Group has not encountered any interference or encumbrance from any governing bodies in the UAE because of those contractual arrangements. Based upon the view of the Group's UAE legal adviser, the directors believe that the relevant contractual arrangements are enforceable under the relevant laws and regulations in the UAE. Accordingly, Indigo Dubai has been accounted for as a wholly-owned subsidiary of the Group.

(b) Sources of estimation uncertainty

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

3. ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(b) Sources of estimation uncertainty (Continued)

(i) Revenue recognition on project contracts

As explained in policy note 2(s)(i), revenue from project contracts is recognised over time. The revenue and profit recognition on uncompleted projects are dependent on estimating the total outcome of the project contracts, as well as the work done to date. Based on the Group's recent experience and the nature of the activities undertaken by the Group, the Group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the project contracts can be reasonably measured. Until this point is reached the related contract assets disclosed in note 16(a) do not include profit which the Group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Impairments

In considering the impairment loss or reversal of impairment loss that may be required for certain property, plant and equipment, intangible assets and right-of-use assets, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of its fair value less costs of disposal and the value in use. It is difficult to precisely estimate its fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.

The Group's management determines the provision for impairment of financial assets (including finance lease receivables, trade and other receivables, contract assets and bank balances) on a forward-looking basis. Lifetime ECLs are recognised on finance lease receivables, trade receivables and contract assets using a provision matrix. Other financial assets are considered 12-month ECLs. In making the judgement, management considers available reasonable and supportive forwarding-looking information such as actual or expected significant changes in the operating results of debtors, actual or expected significant adverse changes in business and debtors' financial position. At the end of each reporting period the historical observed default rates are updated and changes in the forward-looking estimates are analysed by the Group's management.

An increase or decrease in the above impairment loss would affect profit or loss in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

3. ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(b) Sources of estimation uncertainty (Continued)

(iii) *Inventory provision*

The Group performs regular review of the carrying amounts of inventories with reference to ageing analyses of the Group's inventories, projections of expected future saleability of goods based on management experience and judgement. Based on this review, write down of inventories is made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in technological, market and economic environment and customers' preference, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

(iv) *Provisions for long service payments and employees' end-of-service benefits*

As explained in notes 22(a) and 22(b), the Group makes provisions for long service payments and employees' end-of-service benefits in accordance with the requirements of the Hong Kong Employment Ordinance and labour laws of the UAE respectively. The Group has based the estimation on its recent employee statistics and adopted certain assumptions in assessing the provisions for long service payments and employees' end-of-service benefits. It is possible that the assumptions adopted by the Group in assessing the provisions for long service payments and employees' end-of-service benefits may not be indicative of the future situation. Any increase or decrease in the provisions would affect profit or loss in future years.

(v) *Provisions for reinstatement costs for rented premises*

As explained in note 22(c), the Group makes provision for reinstatement costs based on the best estimate of the expected costs to be incurred upon expiry of the relevant rental agreements, which are subject to uncertainty and might differ from the actual costs incurred in the future. Any increase or decrease in the provision would affect profit or loss in future years.

4. REVENUE AND SEGMENT INFORMATION

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments:

- Sale of home furniture and accessories
- Rental of home furniture and accessories
- Project and hospitality services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Performance is based on segment gross profit net of impairment losses on non-current assets, contract assets and related depreciation of property, plant and equipment and right-of-use assets. The Group's most senior executive management does not evaluate operating segment using assets and liabilities information, so segment assets and liabilities are not reported to the Group's most senior executive management. Accordingly, reportable segment assets and liabilities have not been presented.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments.

For the year ended 31 December 2022

	Sale of home furniture and accessories HK\$'000	Rental of home furniture and accessories HK\$'000	Project and hospitality services HK\$'000	Total HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15				
— Point in time	148,232	—	—	148,232
— Over time	—	—	35,183	35,183
Revenue from other sources				
— Over time	—	20,623	—	20,623
	<u>148,232</u>	<u>20,623</u>	<u>35,183</u>	<u>204,038</u>
Reportable segment results	<u>50,577</u>	<u>16,475</u>	<u>10,503</u>	<u>77,555</u>
Unallocated items				
Interest income				28
Fair value loss on financial assets at FVPL				(62)
Expected credit losses allowance				(6,698)
Depreciation of property, plant and equipment				(326)
Depreciation of right-of-use assets				(1,720)
Amortisation of intangible assets				(126)
Finance costs				(1,074)
Unallocated corporate expenses				(115,463)
Loss before taxation				(47,886)
Income tax expense				(2)
Loss for the year				<u>(47,888)</u>
Impairment losses on non-current assets	20,600	—	668	21,268
Expected credit losses allowance	—	—	562	562
Depreciation of property, plant and equipment	1,394	2,550	—	3,944
Depreciation of right-of-use assets	<u>5,663</u>	<u>—</u>	<u>—</u>	<u>5,663</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (Continued)

For the year ended 31 December 2021

	Sale of home furniture and accessories HK\$'000	Rental of home furniture and accessories HK\$'000	Project and hospitality services HK\$'000	Total HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15				
– Point in time	165,646	–	–	165,646
– Over time	–	–	60,108	60,108
Revenue from other sources				
– Over time	–	18,595	–	18,595
	<u>165,646</u>	<u>18,595</u>	<u>60,108</u>	<u>244,349</u>
Reportable segment results	<u>68,975</u>	<u>15,726</u>	<u>20,390</u>	105,091
Unallocated items				
Interest income				32
Expected credit losses allowance				(250)
Depreciation of property, plant and equipment				(2,118)
Depreciation of right-of-use assets				(7,734)
Amortisation of intangible assets				(1,219)
Finance costs				(793)
Unallocated corporate expenses				<u>(121,276)</u>
Loss before taxation				(28,267)
Income tax credit				<u>101</u>
Loss for the year				<u>(28,166)</u>
Reversal of impairment loss on non-current assets	1,168	112	–	1,280
Impairment losses on non-current assets	(17,575)	–	(820)	(18,395)
Expected credit losses allowance	–	–	(1,111)	(1,111)
Depreciation of property, plant and equipment	(1,080)	–	–	(1,080)
Depreciation of right-of-use assets	<u>(6,745)</u>	<u>–</u>	<u>–</u>	<u>(6,745)</u>

There was no inter-segment revenue for years ended 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Geographical information

Revenue from external customers

	2022 HK\$'000	2021 HK\$'000
Hong Kong	124,852	144,968
UAE	70,096	72,845
PRC	9,090	26,536
	<u>204,038</u>	<u>244,349</u>

The above revenue information is based on the locations of the customers.

Non-current assets

	2022 HK\$'000	2021 HK\$'000
Hong Kong	11,839	12,434
UAE	164	4,914
PRC	800	2
	<u>12,803</u>	<u>17,350</u>

The above non-current assets information is based on the locations of the assets and excluded the finance lease receivables.

Information about a major customer

During the year ended 31 December 2022, no customer with whom transactions exceeded 10% of the Group's revenue.

One single customer (which is a hotel operator and an independent third party) contributed approximately 10.59% or more of the Group's revenue for the year ended 31 December 2021. Revenue from sale of home furniture and accessories, rental of home furniture and accessories and project and hospitality services for this customer amounted to HK\$25,888,000. Details of concentrations of credit risk arising from this customer are set out in note 26(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Revenue expected to be recognised in the future arising from project contracts with customers in existence at the end of the reporting period

For the project and hospitality services in existence as at 31 December 2022, the Group will recognise the expected revenue in the future when the remaining performance obligations under the contracts are satisfied (see note 2(s)(i)). The Group has applied the practical expedient in paragraph 121 of HKFRS 15, as the Group has a right to invoice, which corresponds directly to the value to the customer of the Group's performance completed to date.

5. OTHER INCOME, GAINS AND LOSSES, NET

	2022 HK\$'000	2021 HK\$'000
Bank interest income	28	32
COVID-19-related rent concessions received	1,756	1,206
Fair value loss on financial assets at FVPL	(62)	–
Gain on disposal of property, plant and equipment, net	44	–
Government grants received (<i>note</i>)	2,146	–
Interest income from finance leases	259	243
Net exchange gains	–	601
Other income from franchisee	–	1,642
Royalty income from franchising	967	1,087
Reversal of provision for long service payments and employees' end-of-service benefits	153	202
Reversal of provision for reinstatement costs for rented premises	1,833	–
Rental income	889	926
Written off of expired trade and other payables	1,205	172
Sundry income	550	646
	9,768	6,757

Note: The government grants received represented mainly an amount of HK\$2,146,000 (2021: HK\$Nil) being the funding support in 2022 from the Employment Support Scheme under the Anti-epidemic Fund, set up by The Government of the Hong Kong Special Administrative Region. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

6. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging/(crediting):

	2022 HK\$'000	2021 HK\$'000
(a) Finance costs:		
Interest on bank borrowings (note 25)	343	69
Interest on lease liabilities (note 25)	731	724
	<u>1,074</u>	<u>793</u>
(b) Staff costs [#] :		
Salaries, allowances and commissions	58,545	64,770
Reversal of share-based payment expenses	–	(4)
Retirement benefits scheme contributions	2,664	3,017
Provision for long service payments and employees' end-of-service benefits, net (note 22)	976	545
	<u>62,185</u>	<u>68,328</u>
# Staff costs are net of reversal of provision for long service payments and employees' end-of-service benefits of HK\$153,000 (2021: HK\$202,000) which is also included in "other income, gains and losses, net" in note 5.		
(c) Other items:		
Amortisation of intangible assets (note 11)	126	1,219
Auditors' remuneration	1,039	1,021
Provision for expected credit loss allowance for:		
– Contract assets	562	1,111
– Trade receivables	2,837	250
– Other receivables	3,843	–
– Finance lease receivables	18	–
	<u>7,260</u>	<u>1,361</u>
Bad debts written off	–	31
Cost of inventories recognised as expense (note 15)	95,040	111,171
Depreciation of property, plant and equipment (note 10)	4,270	3,198
Depreciation of right-of-use assets (note 12)	7,383	14,479
Fair value loss on financial asset at FVPL (note 5)	62	–
Net, impairment losses on (note 10):		
– Property, plant and equipment	5,652	870
– Intangible assets	278	3,826
– Right-of-use assets	15,338	12,419
	<u>21,268</u>	<u>17,115</u>
Expenses related to short-term leases	5,313	8,394
Written off of property, plant and equipment	–	5
Variable lease payments not included in the measurement of lease liabilities	725	228
	<u>725</u>	<u>228</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

7. INCOME TAX

(a) Taxation in consolidated statement of profit or loss and other comprehensive income:

	2022 HK\$'000	2021 HK\$'000
Hong Kong Profits Tax		
– Under/(over)-provision in respect of prior years	<u>2</u>	<u>(101)</u>

The Group is not subject to any income tax in the Cayman Islands, the BVI and the UAE pursuant to the rules and regulations in those jurisdictions.

The provision for Hong Kong Profits Tax for 2022 is calculated at 16.5% (2021: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2,000,000 of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2021.

No provision for the PRC Enterprise Income Tax is made as the Group has no assessable profit arising in or derived from the PRC for both years.

(b) Reconciliation between tax expense/(credit) and accounting loss at applicable tax rates

	2022 HK\$'000	2021 HK\$'000
Loss before taxation	<u>(47,886)</u>	<u>(28,267)</u>
Notional tax at applicable tax rates at respective jurisdictions	(7,546)	(6,206)
Tax effect of non-taxable income	(582)	(281)
Tax effect of non-deductible expenses	2,075	2,256
Tax effect of temporary differences not recognised	617	2,052
Tax effect on unused tax losses not recognised	5,440	2,179
Under/(over)-provision in respect of prior years	2	(101)
Tax concession	<u>(4)</u>	<u>–</u>
Actual tax expense/(credit)	<u>2</u>	<u>(101)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

7. INCOME TAX (CONTINUED)

(c) Deferred taxation

As at 31 December 2022, deferred tax assets arising from deductible temporary differences of HK\$1,233,000 (2021: HK\$1,227,000) has not been recognised as no sufficient taxable profit will be available in the foreseeable future.

At 31 December 2022, the Group has unused tax losses arising in Hong Kong of approximately HK\$50,025,000 (2021: HK\$31,055,000), that are available indefinitely for offsetting against future taxable profits of the Group companies in which the losses arose. The Group also has tax losses arising in the PRC of approximately HK\$28,674,000 (2021: HK\$22,441,000), that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams.

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to section 383 of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Year ended 31 December 2022

	Fees HK\$'000	Salaries and other allowances HK\$'000	Discretionary bonus HK\$'000	Retirement benefit scheme contributions HK\$'000	Provision for long service payments HK\$'000	Share- based payments expenses HK\$'000	Total HK\$'000
Executive directors							
Mr. MCLENNAN John Warren (Chairman and Chief Executive Officer ("CEO")) (note g)	-	1,858	69	18	-	-	1,945
Ms. MOK Fiona Lai Yin (note e)	-	1,835	79	18	-	-	1,932
Mr. SO Wilson Kin Ting	240	-	-	-	-	-	240
Ms. AHMIN Shawlain (note a)	107	-	-	-	-	-	107
Mr. WONG Ka Man (note f)	-	-	-	-	-	-	-
Ms. WONG Wing Man (note f)	-	-	-	-	-	-	-
Mr. ZHENG Tianzhi (note b)	146	-	-	-	-	-	146
Non-executive director							
Mrs. MCLENNAN Jennifer Carver	60	-	-	-	-	-	60
Independent Non-executive directors							
Mr. SO Alan Wai Shing	60	-	-	-	-	-	60
Mr. LEE Kwong Ming	60	-	-	-	-	-	60
Mr. LEE Fung Lun	60	-	-	-	-	-	60
Mr. SZUTU Tom Kuet (note a)	36	-	-	-	-	-	36
Mr. MAK Kurt Kwai Ching (note a)	36	-	-	-	-	-	36
Mr. NICHOL Roderick Donald (note b)	24	-	-	-	-	-	24
Ms. KESEBI Lale (note b)	24	-	-	-	-	-	24
Total	853	3,693	148	36	-	-	4,730

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Directors' emoluments (Continued)

Year ended 31 December 2021

	Fees HK\$'000	Salaries and other allowances HK\$'000	Discretionary bonus HK\$'000	Retirement benefit scheme contributions HK\$'000	Provision for long service payments HK\$'000	Share- based payments expenses HK\$'000	Total HK\$'000
Executive directors							
Mr. MCLENNAN John Warren (Chairman and CEO) (note g)	-	1,628	-	18	-	-	1,646
Ms. MOK Fiona Lai Yin (note e)	-	1,543	120	18	-	79	1,760
Mr. SO Wilson Kin Ting	166	-	-	-	-	-	166
Ms. FITZPATRICK Tracy-Ann (note c)	-	3,529	-	11	-	-	3,540
Mr. ZHENG Tianzhi (note b)	180	-	-	-	-	-	180
Non-executive director							
Mrs. MCLENNAN Jennifer Carver	60	-	-	-	-	-	60
Independent Non-executive directors							
Mr. NICHOL Roderick Donald (note b)	60	-	-	-	-	-	60
Ms. KESEBI Lale (note b)	60	-	-	-	-	-	60
Ms. CHEUNG Elaine June (note d)	3	-	-	-	-	-	3
Mr. SO Alan Wai Shing	51	-	-	-	-	-	51
Mr. LEE Kwong Ming	42	-	-	-	-	-	42
Mr. LEE Fung Lun	13	-	-	-	-	-	13
Total	635	6,700	120	47	-	79	7,581

Notes:

- (a) Appointed on 27 May 2022.
- (b) Resigned on 27 May 2022.
- (c) Resigned as the Executive Director and CEO of the Company on 1 July 2021.
- (d) Resigned on 15 January 2021.
- (e) Resigned on 15 March 2023.
- (f) Appointed on 15 March 2023.
- (g) Appointed as CEO of the Company on 1 July 2021.

During the years ended 31 December 2022 and 2021, there were no amounts paid or payable by the Group to the Chairman/CEO and any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employee' emoluments

The five highest paid individuals included two (2021: three) directors whose emoluments are included in the disclosures in note 8(a). The emoluments of the remaining three (2021: two) individuals are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Salaries and other allowances	2,863	1,776
Discretionary bonus	98	81
Share-based payment expenses	–	41
Retirement benefit scheme contributions	54	36
Total	<u>3,015</u>	<u>1,934</u>

Their emoluments are within the following bands:

	2022 <i>Number of employees</i>	2021 <i>Number of employees</i>
Nil to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>1</u>

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to owners of the Company of HK\$46,369,000 (2021: HK\$28,166,000) and the weighted average of 1,320,000,000 (2021: 1,217,205,500) ordinary shares in issue.

No adjustments has been made to the basic loss per share amounts presented for the years ended 31 December 2022 and 2021 in respect of dilution as the impact of the share options had an anti-dilutive effect on basic loss per share amounts presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Decoration and fittings HK\$'000	Furniture and fixtures HK\$'000	Office Equipment HK\$'000	Motor vehicles HK\$'000	Furniture for rental HK\$'000	Total HK\$'000
At cost:						
At 1 January 2021	30,502	4,788	15,361	2,584	17,924	71,159
Additions	271	43	148	–	2,283	2,745
Disposals	–	(30)	–	(255)	(144)	(429)
Write-off	(4,010)	(16)	(112)	–	(4,529)	(8,667)
Exchange realignment	245	13	30	7	45	340
At 31 December 2021 and 1 January 2022	<u>27,008</u>	<u>4,798</u>	<u>15,427</u>	<u>2,336</u>	<u>15,579</u>	<u>65,148</u>
Additions	5,985	59	375	154	2,189	8,762
Disposals	(222)	(1,910)	(419)	(155)	–	(2,706)
Write-off	(8,124)	(40)	–	–	(3,845)	(12,009)
Exchange realignment	(374)	(17)	(46)	–	(47)	(484)
At 31 December 2022	<u>24,273</u>	<u>2,890</u>	<u>15,337</u>	<u>2,335</u>	<u>13,876</u>	<u>58,711</u>
Accumulated depreciation and impairment losses:						
At 1 January 2021	30,339	3,275	14,408	2,049	16,927	66,998
Charge for the year	197	374	406	185	2,036	3,198
Written back on disposals (Reversal of)/provision for impairment losses	–	(30)	–	(235)	(144)	(409)
Written back on write-off	(192)	929	360	203	(430)	870
Written back on write-off	(4,010)	(14)	(109)	–	(4,529)	(8,662)
Exchange realignment	243	13	29	7	40	332
At 31 December 2021 and 1 January 2022	<u>26,577</u>	<u>4,547</u>	<u>15,094</u>	<u>2,209</u>	<u>13,900</u>	<u>62,327</u>
Charge for the year	1,394	86	194	46	2,550	4,270
Written back on disposals	(222)	(1,821)	(398)	(75)	–	(2,516)
Provision for impairment losses	4,960	126	454	112	–	5,652
Written back on write-off	(8,124)	(40)	–	–	(3,845)	(12,009)
Exchange realignment	(374)	(17)	(48)	–	(46)	(485)
At 31 December 2022	<u>24,211</u>	<u>2,881</u>	<u>15,296</u>	<u>2,292</u>	<u>12,559</u>	<u>57,239</u>
Carrying amount:						
At 31 December 2022	<u>62</u>	<u>9</u>	<u>41</u>	<u>43</u>	<u>1,317</u>	<u>1,472</u>
At 31 December 2021	<u>431</u>	<u>251</u>	<u>333</u>	<u>127</u>	<u>1,679</u>	<u>2,821</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Items of furniture held for rental are leased out under operating leases. The leases typically run for an initial period of 2 years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The Group's total future minimum lease payments receivable under non-cancellable operating leases is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 year	4,536	3,114
More than 1 year but within 2 years	506	648
	<u>5,042</u>	<u>3,762</u>

As a result of the unfavourable performance of certain subsidiaries incorporated in the Hong Kong and Dubai (the “**Operating Subsidiaries**”) during the year ended 31 December 2022, the management conducted impairment assessments of the property, plant and equipment, intangible assets and right-of-use assets of the Operating Subsidiaries, and recognised an impairment of approximately HK\$5,652,000, HK\$278,000 and HK\$15,338,000 against the carrying amount of property, plant and equipment, intangible assets and right-of-use assets, respectively.

In view of the continuous losses sustained by the HK and Dubai CGUs during the year ended 31 December 2022, the management conducted assessments for impairment losses as at 31 December 2022. The recoverable amounts were determined based on value in use calculations. Value in use calculations used cash flow projections based on financial budgets approved by the management covering a five-year period projected with terminal rate. The cash flows beyond the five-year period is extrapolated with a terminal growth rate of 3.00% (2021: 3.00%).

Impairment losses/reversal of impairment losses are to be made on a CGU when its recoverable amount is lower/higher than its carrying amount. The recoverable amount is the higher of value in use and fair value less costs of disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The aggregate recoverable amounts of these retail stores and business units based on their value in use are as follows:

	2022 HK\$'000	2021 HK\$'000
Retail stores and business units in HK CGUs	–	–
Retail stores and business units in Dubai CGUs	8,493	21,232

The estimates of recoverable amount were based on the value in use of these property, plant and equipment, intangible assets and right-of-use assets determined using pre-tax discount rate are as follows:

	2022	2021
Retail stores and business units in HK CGUs	13.00%	11.00%
Retail stores and business units in Dubai CGUs	16.00%	11.00%

Management estimates the pre-tax discount rate that reflects market assessment of the time value of money and specific risk relating to the industry.

HK CGUs' impairment losses

Based on the value in use calculations, the HK CGUs' impairment losses amounting to HK\$1,810,000 (2021: HK\$2,150,000), HK\$278,000 (2021:HK\$3,826,000) and HK\$9,833,000 (2021:HK\$12,419,000) have been provided for property, plant and equipment, intangible assets and right-of-use assets, respectively, for the year ended 31 December 2022.

Dubai CGUs' impairment losses

Based on the value in use calculations, the Dubai CGUs' impairment losses amounting to HK\$3,842,000 (2021: reversal of HK\$1,280,000) and HK\$5,505,000 (2021: HK\$Nil) have been provided for property, plant and equipment and right-of-use assets, respectively for the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

11. INTANGIBLE ASSETS

	Software <i>HK\$'000</i>
	<u> </u>
At cost:	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<u>7,718</u>
Accumulated amortisation and impairment losses:	
At 1 January 2021	2,233
Charge for the year	1,219
Impairment losses (<i>note 10</i>)	<u>3,826</u>
At 31 December 2021 and 1 January 2022	7,278
Charge for the year	126
Impairment losses (<i>note 10</i>)	<u>278</u>
At 31 December 2022	<u>7,682</u>
Carrying amount:	
At 31 December 2022	<u><u>36</u></u>
At 31 December 2021	<u><u>440</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

12. RIGHT-OF-USE ASSETS

	Leased properties HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost:			
At 1 January 2021	67,728	802	68,530
Additions	17,079	–	17,079
Write-off upon expired leases	(19,590)	–	(19,590)
Exchange realignment	55	–	55
	<u>65,272</u>	<u>802</u>	<u>66,074</u>
At 31 December 2021 and 1 January 2022	65,272	802	66,074
Additions	19,997	–	19,997
Write-off upon expired leases	(19,217)	–	(19,217)
Exchange realignment	(53)	–	(53)
	<u>65,999</u>	<u>802</u>	<u>66,801</u>
At 31 December 2022	65,999	802	66,801
Accumulated depreciation and impairment losses:			
At 1 January 2021	54,378	258	54,636
Charge for the year	14,352	127	14,479
Impairment losses (<i>note 10</i>)	12,046	373	12,419
Write-off upon expired leases	(19,590)	–	(19,590)
Exchange realignment	41	–	41
	<u>61,227</u>	<u>758</u>	<u>61,985</u>
At 31 December 2021 and 1 January 2022	61,227	758	61,985
Charge for the year	7,370	13	7,383
Impairment losses (<i>note 10</i>)	15,311	27	15,338
Write-off upon expired leases	(19,217)	–	(19,217)
Exchange realignment	(45)	–	(45)
	<u>64,646</u>	<u>798</u>	<u>65,444</u>
At 31 December 2022	64,646	798	65,444
Carrying amount:			
At 31 December 2022	<u><u>1,353</u></u>	<u><u>4</u></u>	<u><u>1,357</u></u>
At 31 December 2021	<u><u>4,045</u></u>	<u><u>44</u></u>	<u><u>4,089</u></u>

The Group has obtained the right to use certain properties as its office premises, warehouses and retail stores through tenancy agreements. The leases typically run for an initial period of 2 or 3 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

12. RIGHT-OF-USE ASSETS (CONTINUED)

Two of the leases (2021: two) include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension option exercisable by the Group to provide operational flexibility. The Group assesses at the lease commencement date the likelihood of exercising the extension option, and only include those reasonably certain to be exercised in the measurement of lease liabilities. At 31 December 2022, the potential future lease payments under extension option for leased properties of HK\$5,136,000 (undiscounted) (2021: HK\$5,136,000) have not been included in the lease liabilities as the option is unlikely to be exercised.

During the years ended 31 December 2022 and 2021, the Group leased a number of retail stores which contain variable lease payment terms that are based on sales generated from the retail stores. During 2022, the Group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19. The amount of lease payments recognised in profit or loss for the year is disclosed in note 6(c). The variable lease payments depend on sales and consequently on the overall economic development over the next few years. Taking into account the development of sales expected over the next few years, variable lease payments are expected to continue to present a similar proportion of store sales in future years.

Amounts included in the consolidated statement of cash flows comprise of cash outflows for leases of HK\$4,282,000 and HK\$16,059,000 (2021: HK\$7,416,000 and HK\$25,604,000) in operating and financing activities respectively.

13. FINANCE LEASE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current finance lease receivables	2,939	2,116
Non-current finance lease receivables	1,014	698
	<u>3,953</u>	<u>2,814</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

13. FINANCE LEASE RECEIVABLES (CONTINUED)

The total minimum lease payments receivables under finance leases and their present values are as follows:

	Minimum lease payments receivable		Present value of minimum lease payments	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Within 1 year	3,175	2,281	2,951	2,125
More than 1 year but less than 5 years	1,074	748	1,029	698
	<u>4,249</u>	<u>3,029</u>	<u>3,980</u>	<u>2,823</u>
Unearned interest income	(269)	(206)	–	–
Present value of minimum lease payments receivable	<u>3,980</u>	<u>2,823</u>	<u>3,980</u>	<u>2,823</u>
Less: expected credit loss allowance	<u>(27)</u>	<u>(9)</u>	<u>(27)</u>	<u>(9)</u>
	<u><u>3,953</u></u>	<u><u>2,814</u></u>	<u><u>3,953</u></u>	<u><u>2,814</u></u>

Certain items of furniture are leased out under finance leases. The terms of finance leases range from 12 months to 24 months (2021: 12 months to 24 months). The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The effective interest rates are ranging from 5% to 16.5% (2021: from 5% to 16.5%).

Finance lease receivables are secured over the furniture leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

14. FINANCIAL ASSET MEASURED AT FVPL

	2022 HK\$'000	2021 HK\$'000
Investment in an unlisted fund	<u>5,938</u>	<u>6,000</u>

The investment in an unlisted fund are held for a diversified fund incorporated as an exempted company with limited liability in Cayman Islands. During the year, no dividends or income were received from this investment (2021: HK\$Nil). Details on the valuation technique and input used are set out in fair value measurements of financial instruments in note 26(e).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

15. INVENTORIES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Merchandise goods	42,884	37,682
Less: Impairment provision	<u>(2,667)</u>	<u>(1,074)</u>
	<u>40,217</u>	<u>36,608</u>

The analysis of the amount of inventories recognised as an expense is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Carrying amount of inventories sold	91,433	112,019
Provision/(reversal of) for inventories, net	<u>3,607</u>	<u>(848)</u>
	<u>95,040</u>	<u>111,171</u>

16. CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Gross amount arising from performance under project contracts	4,395	5,634
Less: expected credit loss allowance	<u>(840)</u>	<u>(2,646)</u>
	<u>3,555</u>	<u>2,988</u>

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditional on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional. Typical payment terms which impact on the amount of contract assets recognised are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

16. CONTRACT ASSETS AND CONTRACT LIABILITIES (CONTINUED)

(a) Contract assets (Continued)

The Group's project contract work includes payment schedules which require stage payments over the project contract period once certain milestones are reached. These payment schedules prevent the build-up of significant contract assets. A deposit is typically payable up front and this has resulted in a contract liability at early stage of the project. The Group also typically agrees to a one year retention period for 5% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the Group's work satisfactorily passing inspection. Further details on the Group's credit policy are set out in note 26(a).

(b) Contract liabilities

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Billings in advance of performance from project contracts	<u>35,252</u>	<u>15,397</u>

When the Group receives a deposit before the project contract work commences this will give rise to contract liabilities at the start of a project contract, until the revenue recognised on the project exceeds the amount of the deposit. It is common practice on the Group's project contracts to require a deposit before work commences.

Movements in contract liabilities:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
At 1 January	15,397	22,846
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(14,802)	(21,462)
Increase in contract liabilities as a result of billing in advance of project contract work	34,914	13,876
contract liabilities ended during the year	(257)	137
Exchange realignment	<u>35,252</u>	<u>15,397</u>
At 31 December	<u>35,252</u>	<u>15,397</u>

The above balance represents the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period, all of which will be recognised as revenue during the subsequent reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

17. TRADE AND OTHER RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	19,886	15,161
Less: expected credit loss allowance	<u>(3,463)</u>	<u>(683)</u>
	16,423	14,478
Current		
Other receivables	10,202	3,744
Trade deposits	11,788	13,583
Rental and other deposits	6,983	8,491
Prepayments	<u>3,222</u>	<u>14,588</u>
	48,618	54,884
Non-current		
Non-refundable deposit (<i>note 1</i>)	<u>4,000</u>	<u>4,000</u>
Total	<u><u>52,618</u></u>	<u><u>58,884</u></u>

At 31 December 2022, apart from certain deposits totalling HK\$6,983,000 (2021: HK\$8,491,000), all trade and other receivables are expected to be recovered or recognised as expenses within one year.

Note 1: On 17 November 2021, Indigo Living Limited, a wholly owned subsidiary of the Company (see note 28), entered into a joint venture agreement with an independent third party (the “**Other Party**”) which is a company incorporated in Hong Kong. During the year ended 31 December 2021, in which both parties agreed to set up a joint venture for the purpose of acquiring, design, renovating and selling individual condo units in Canada by capital contribution of cash HK\$4,000,000 by Indigo Living Limited, and cash and property units of HK\$38,000,000 by Other Party. As at 31 December 2021, Indigo Living Limited had paid HK\$4,000,000 to Other Party as non-refundable deposit of the proposed joint venture. As at the end of the reporting period and up to the date of this report, the set up of this joint venture is still under progress.

The ageing analysis of trade receivables, based on invoice date and net of expected credit loss allowance, is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 month	8,266	8,182
More than 1 month but less than 3 months	6,382	3,688
More than 3 months but less than 12 months	1,771	2,606
More than 12 months	<u>4</u>	<u>2</u>
	16,423	14,478

Trade receivables are due within 30 days from the date of billing. Further details on the Group’s credit policy are set out in note 26(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

18. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2022 HK\$'000	2021 HK\$'000
Cash and cash equivalents	17,824	33,390
Pledged bank deposits (<i>note</i>)	3,000	3,000
	<u>20,824</u>	<u>36,390</u>

Note:

Pledged bank deposits with original maturities more than three months carried fixed interest rates of 0.21% – 0.41% (2021: 0.03% – 0.47%) per annum as at 31 December 2022. Pledged bank deposits had been pledged to secure the Group's interest-bearing bank borrowings (*note* 20) and were classified as current assets.

19. TRADE AND OTHER PAYABLES

	2022 HK\$'000	2021 HK\$'000
Trade payables	2,573	4,478
Deposits received	3,193	3,456
Other payables	2,798	3,370
Accruals	9,001	8,507
	<u>17,565</u>	<u>19,811</u>

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The following is an ageing analysis of trade payables presented based on the invoice date:

	2022 HK\$'000	2021 HK\$'000
Within 1 month	1,674	3,273
More than 1 month but less than 3 months	417	18
More than 3 months	482	1,187
	<u>2,573</u>	<u>4,478</u>

Included in accruals as at 31 December 2022 were delivery service and manpower support charges payable to Winford Inc. Limited of approximately HK\$466,000 (2021: HK\$278,000), which is unsecured, interest-free and payable within 21 days after the invoice date. A director, Mr. John Warren McLennan, has a 29% (2021: 29%) equity interest in Winford Inc. Limited as at 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

20. INTEREST-BEARING BANK BORROWINGS

At 31 December 2022, the bank loans amounting to HK\$1,968,000 (2021: HK\$859,000) were secured by pledged bank deposits of HK\$3,000,000 (2021: HK\$3,000,000) and a corporate guarantee of HK\$3,000,000 (2021: HK\$5,000,000) from the Company.

At 31 December 2022, the bank loan amounting to United Arab Emirates Dirham (“AED”) 2,685,000 (equivalent to approximately HK\$5,699,000) (2021: HK\$Nil) was secured by a personal guarantee executed by a director of the Company.

The effective interest rate are ranging from 4.89% to 10.08% (2021: 2.75%).

The maturity of interest-bearing bank borrowings, based on the scheduled repayment dates set out in the loan agreements, is as follow:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within one year	3,398	859
After 1 year but within 2 years	1,581	–
After 2 years but within 5 years	2,688	–
	<u>7,667</u>	<u>859</u>
Less: Amounts included under current liabilities (including borrowings with a repayable on demand clause)	<u>(7,667)</u>	<u>(859)</u>
	<u>–</u>	<u>–</u>

Details on the interest rate profile of the Group are set out in note 26(c).

21. LEASE LIABILITIES

At 31 December 2022, the lease liabilities were repayable as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 1 year	13,056	12,987
More than 1 year but less than 2 years	6,862	5,499
More than 2 years but less than 5 years	1,451	–
	<u>8,313</u>	<u>5,499</u>
	<u>21,369</u>	<u>18,486</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

22. PROVISIONS

	Long service payments HK\$'000	Employees' end-of-service benefits HK\$'000	Reinstatement costs for rented premises HK\$'000	Total HK\$'000
At 1 January 2021	213	4,718	3,352	8,283
Provision made	176	571	–	747
Provision reversed	(202)	–	–	(202)
Provision utilised	–	(924)	(943)	(1,867)
Exchange realignment	–	26	–	26
At 31 December 2021 and 1 January 2022	187	4,391	2,409	6,987
Provision made	138	991	1,707	2,836
Provision reversed	(5)	(148)	(1,833)	(1,986)
Provision utilised	(20)	(666)	–	(686)
Exchange realignment	–	(2)	–	(2)
At 31 December 2022	300	4,566	2,283	7,149

(a) Provision for long service payments

The Group's net obligation in respect of long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain circumstances under the Hong Kong Employment Ordinance is the amount of future benefit that employees have earned in return for their services.

The amount payable is dependent upon the employee's final salary and period of service, and is reduced by entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group.

(b) Provision for employees' end-of-service benefits

Provision for the employees' end-of-service benefits is made in accordance with the labour laws of the UAE, and is based on current remuneration and cumulative periods of service at the end of the reporting period.

(c) Provision for reinstatement costs for rented premises

Under the terms of the rental agreements signed with landlords, the Group shall remove and reinstate the rented premises at the Group's cost upon expiry of the relevant rental agreements. Provision is therefore made for the best estimate of the expected reinstatement costs to be incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

22. PROVISIONS (CONTINUED)

(d) Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme (“**the MPF scheme**”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

The employees of a subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represents for the entire pension obligations payable to retired employees. Contributions to the plan vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Share option scheme adopted by the Company

Pursuant to the written resolution of the shareholders of the Company on 19 June 2018, the Company adopted a share option scheme (the “**Share Option Scheme**”) for the purpose of granting options to eligible participants as incentives or rewards for their contribution to the Group.

Under the Share Option Scheme, the board of directors may at its discretion grant options to full-time or part-time employees, including executive directors, non-executive directors and independent non-executive directors, consultants or advisers of the Group. The offer of a grant of share options may be accepted by the grantee within 28 days from the date of the offer, upon payment of HK\$1 by way of consideration for the grant. Each share option gives the holder of the right to subscribe for one ordinary share in the Company and is settled gross in shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(a) Share option scheme adopted by the Company (Continued)

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time. In addition, the total number of shares which may be issued upon exercise of all options to be granted under Share Option Scheme and any other share option schemes of the Company must not exceed 100,000,000 shares in the Company, being the scheme mandate limit. The board of directors may seek approval by the shareholders of the Company in general meeting to renew the scheme mandate limit, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of the renewed limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant under the Share Option Scheme and other schemes (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue from time to time.

The exercise price of share options is the highest of (i) the nominal value of the shares; (ii) the closing price of the shares on the Stock Exchange on the date of offer; and (iii) the average closing price of the shares on the Stock Exchange for the five business days immediately preceding the date of offer. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption of the Share Option Scheme which is 19 June 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(b) Details of share options

On 30 August 2018, a total of 45,000,000 share options under the Share Option Scheme was granted, and accumulated total of 20,360,000 share options were lapsed up to 31 December 2021.

Details of the share options and their movement during the year ended 31 December 2022 are as follows:

	Exercise price HK\$	Number of share options at 1 January 2022	Number of share options lapsed during the year	Number of share options at 31 December 2022
Options granted to Ms. MOK Lai Yin Fiona, a director of the Company (<i>note</i>) with exercise period:				
– 18 July 2019 to 17 July 2022	0.22	3,293,400	(3,293,400)	–
– 18 July 2020 to 17 July 2022	0.22	3,293,400	(3,293,400)	–
– 18 July 2021 to 17 July 2022	0.22	3,393,200	(3,393,200)	–
Options granted to employees and consultants, with exercise period:				
– 18 July 2019 to 17 July 2022	0.22	4,848,400	(4,848,400)	–
– 18 July 2020 to 17 July 2022	0.22	4,848,400	(4,848,400)	–
– 18 July 2021 to 17 July 2022	0.22	4,963,200	(4,963,200)	–
		<u>24,640,000</u>	<u>(24,640,000)</u>	<u>–</u>

During the year ended 31 December 2022, a total of 24,640,000 (2021: 10,810,000) share options were lapsed, and no share options were exercised, issued or cancelled (2021: Nil). No share options were outstanding as at 31 December 2022 (2021: 24,640,000, all of which were exercisable as at 31 December 2021).

Note: Ms. MOK Lai Yin Fiona resigned as the Company's director with effect from 15 March 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

23. EQUITY-SETTLED SHARE-BASED TRANSACTIONS (CONTINUED)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the model.

Fair value at measurement date	HK\$0.119-HK\$0.137
Closing price of the share on the date of grant	HK\$0.22
Exercise price	HK\$0.22
Expected volatility (expressed as weighted average volatility used in the modelling under binomial tree model)	51.10%
Option life (expressed as weighted average life used in the modelling under binomial tree model)	3.88 years
Expected dividends	0%
Risk-free interest rate (based on Hong Kong Exchange Fund Notes)	2.15%

Expected volatility was determined by using historical volatility of the Company's comparable companies share price over previous 10 years. Changes in the subjective input assumptions could materially affect the fair value estimate.

24. SHARE CAPITAL, DIVIDENDS AND RESERVES

(a) Share capital

Details of the share capital of the Company are disclosed as follows:

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2021	1,000,000,000	10,000
Proceeds from placing of new shares at 4 February 2021 (note i)	200,000,000	2,000
Proceeds from placing of new shares at 14 September 2021 (note ii)	<u>120,000,000</u>	<u>1,200</u>
At 31 December 2021, 1 January 2022 and 31 December 2022	<u>1,320,000,000</u>	<u>13,200</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

24. SHARE CAPITAL, DIVIDENDS AND RESERVES (CONTINUED)

(a) Share capital (Continued)

Notes:

- (i) The completion of the placing took place on 4 February 2021 (the “**4 February 2021 Completion**”), where a total of 200,000,000 placing shares have been successfully placed by the placing Agent to not less than six placees at the placing price of HK\$0.060 per placing Share pursuant to the terms and conditions of the placing agreement under the general mandate.

The 200,000,000 Shares under the placing represents (i) 20% of the existing issued share capital of the Company immediately before completion; and (ii) approximately 16.67% of the issued share capital of the Company as enlarged by the allotment and issue of the placing shares immediately after 4 February 2021 Completion. The aggregate nominal value of the placing shares under the placing is HK\$2,000,000.

The gross proceeds from the placing are approximately HK\$12,000,000 and the net proceeds from the placing (after deduction of placing commission and other fees, costs, charges and expenses of the placing) are approximately HK\$11,279,000.

For details, please refer to the Company’s announcement dated on 4 February 2021.

- (ii) The completion of the placing took place on 14 September 2021 (the “**14 September 2021 Completion**”), where a total of 120,000,000 placing shares have been successfully placed by the placing agent to not less than six placees at the placing price of HK\$0.112 per placing share pursuant to the terms and conditions of the placing agreement under the general mandate.

The 120,000,000 shares under the placing represents (i) 10% of the existing issued share capital of the Company immediately before 14 September 2021 Completion; and (ii) approximately 9.09% of the issued share capital of the Company as enlarged by the allotment and issue of the placing shares immediately after completion. The aggregate nominal value of the placing shares under the placing is HK\$1,200,000.

The gross proceeds from the placing are approximately HK\$13,440,000 and the net proceeds from the placing (after deduction of placing commission and other fees, costs, charges and expenses of the placing) are approximately HK\$12,767,000.

For details, please refer to the Company’s announcement dated on 14 September 2021.

(b) Dividends

No dividend in respect of years ended 31 December 2022 and 2021 has been proposed by the directors of the Company.

(c) Nature and purposes of reserves

(i) Share premium

The share premium account is governed by the Companies Law of the Cayman Islands and may be applied by the Company subject to the provisions, if any, of its Memorandum and Articles of Association in paying distributions or dividends to equity shareholders. No distribution or dividend may be paid to the equity shareholders out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

24. SHARE CAPITAL, DIVIDENDS AND RESERVES (CONTINUED)

(c) Nature and purposes of reserves (Continued)

(ii) *Share option reserve*

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy as set out in note 2(p)(iii). The amount will either be transferred to the share premium account where the related options are exercised, or be transferred to accumulated profits or losses where the related options expired or are forfeited.

(iii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of an entity with functional currency other than Hong Kong dollars. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

(iv) *Other reserve*

Other reserve represents the difference between the nominal value of the Company's shares issued and the nominal value of the share capital of Pacific Legend Development Limited ("**Pacific Legend Development**") and Deep Blue Living Limited ("**Deep Blue**") acquired pursuant to a reorganisation in connection with and completed prior to the listing of the Company's shares on GEM of the Stock Exchange on 18 July 2018 (the "**Reorganisation**"). Pursuant to the Reorganisation, the Company issued 499 ordinary shares to the then shareholders of Pacific Legend Development on 28 December 2017 in consideration of acquiring their equity interests held in Pacific Legend Development, and 346 ordinary shares on 11 January 2018 to the then shareholders of Deep Blue in consideration of acquiring their equity interests held in Deep Blue.

(d) Capital risk management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group's capital structure is regularly reviewed and managed with due regard to the capital management practices of the Group. Adjustments are made to the capital structure in light of changes in economic conditions affecting the Group, to the extent that these do not conflict with the directors' fiduciary duties towards the Group or the requirements of the Hong Kong Companies Ordinance.

The Group is not subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

25. CASH FLOW INFORMATION

Reconciliation of liabilities arising from financing activities

	Lease liabilities HK\$'000	Interest- bearing bank borrowings HK\$'000	Total HK\$'000
At 1 January 2021	27,420	4,670	32,090
Changes from financing cash flows:			
Capital element of lease rentals paid	(24,880)	–	(24,880)
Interest element of lease rentals paid	(724)	–	(724)
Proceeds from new bank borrowings	–	3,825	3,825
Repayment of bank borrowings	–	(7,636)	(7,636)
Interest paid	–	(69)	(69)
	<u>(25,604)</u>	<u>(3,880)</u>	<u>(29,484)</u>
Exchange realignment	73	–	73
Other changes:			
Increase in lease liabilities from entering into new leases during the period	17,079	–	17,079
COVID-19-related rent concessions received (note 5)	(1,206)	–	(1,206)
Interest expenses (note 6(a))	724	69	793
	<u>18,486</u>	<u>859</u>	<u>19,345</u>
At 31 December 2021 and 1 January 2022	18,486	859	19,345
Changes from financing cash flows:			
Capital element of lease rentals paid	(15,328)	–	(15,328)
Interest element of lease rentals paid	(731)	–	(731)
Proceeds from new bank borrowings	–	8,363	8,363
Repayment of bank borrowings	–	(1,532)	(1,532)
Interest paid	–	(343)	(343)
	<u>(16,059)</u>	<u>6,488</u>	<u>(9,571)</u>
Exchange realignment	(30)	(23)	(53)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	19,997	–	19,997
COVID-19-related rent concessions received (note 5)	(1,756)	–	(1,756)
Interest expenses (note 6(a))	731	343	1,074
	<u>21,369</u>	<u>7,667</u>	<u>29,036</u>
At 31 December 2022	21,369	7,667	29,036

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to finance lease receivables, trade and other receivables, and contract assets. Credit risk on cash and cash equivalents and pledged bank deposits are limited as they are placed with financial institutions with sound credit ratings.

The Group's retail sales are usually paid in cash or via major credit/debit cards. In respect of the Group's corporate and project customers where credit periods are granted, individual credit evaluations are performed. In addition, finance lease receivables, trade receivables and contract assets are monitored on an on-going basis to ensure that follow-up actions are taken and adequate expected credit loss allowances are made for the amounts considered to be irrecoverable.

Trade receivables and contract assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2022, 13% (2021: 15%) and 54% (2021: 25%) of the total trade receivables and contract assets was due from the Group's largest customer and the five largest customers respectively.

The Group measures expected credit loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicate different loss patterns for different customer geographical segments, the expected credit loss allowance based on past due status is further distinguished between the Group's different customer bases.

The credit risks on finance lease receivables are limited because the deposits for a certain period of months are required prior to commencement of leases. The management would make periodic collective assessment of the recoverability of finance lease receivables based on historical credit loss experience. Other monitoring procedures are included actions to recover overdue debts. In these regards, the credit risk of other receivables is considered to be low.

For the years ended 31 December 2022 and 2021, the Group performed impairment assessment on pledged bank deposits and bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Trade receivables and contract assets (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets:

	2022		
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Hong Kong			
Current (not past due)	0.20	2,457	5
1–30 days past due	0.00*	4,092	–
31–90 days past due	0.07	1,485	1
91 days to 1 year past due	1.97	1,117	22
More than 1 year past due	100.00	1,789	1,789
		10,940	1,817
Dubai			
Current (not past due)	0.05	4,105	2
1–30 days past due	1.82	440	8
31–90 days past due	3.69	1,597	59
91 days to 1 year past due	19.16	569	109
More than 1 year past due	100.00	190	190
		6,901	368
PRC			
Current (not past due)	1.03–1.25	4,367	53
1–30 days past due	0.00	–	–
31–90 days past due	0.00	–	–
91 days to 1 year past due	38.46	13	5
More than 1 year past due	100.00	2,060	2,060
		6,440	2,118

* Denotes percentage below 0.01%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Trade receivables and contract assets (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets (Continued):

	2021		
	Expected loss rate %	Gross carrying amount HK\$'000	Loss allowance HK\$'000
Hong Kong			
Current (not past due)	0.00*-0.03	6,205	1
1-30 days past due	0.18	1,111	2
31-90 days past due	0.68	2,682	18
91 days to 1 year past due	1.85	418	8
More than 1 year past due	100.00	146	146
		10,562	175
Dubai			
Current (not past due)	0.00*	11	–
1-30 days past due	0.00*	1,682	–
31-90 days past due	0.00*	319	–
91 days to 1 year past due	4.94	339	17
More than 1 year past due	98.79	148	146
		2,499	163
PRC			
Current (not past due)	0.71-1.41	2,749	35
1-30 days past due	0.00	–	–
31-90 days past due	0.00-4.63	250	12
91 days to 1 year past due	18.45-28.76	2,295	508
More than 1 year past due	96.71-100.00	2,440	2,436
		7,734	2,991

* Denotes percentage below 0.01%.

Expected loss rates are based on actual loss experience over the past 5 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Trade receivables and contract assets (Continued)

Movements in the expected credit loss allowance in respect of trade receivables and contract assets during the year are as follows:

	Hong Kong HK\$'000	Dubai HK\$'000	PRC HK\$'000	Total HK\$'000
Balance at 1 January 2021	269	155	1,472	1,896
Impairment losses recognised	–	8	1,447	1,455
Impairment losses reversed	(94)	–	–	(94)
Exchange realignment	–	–	72	72
Balance at 31 December 2021 and at 1 January 2022	175	163	2,991	3,329
Impairment losses recognised	1,645	205	3,185	5,035
Impairment losses reversed	(3)	–	(1,633)	(1,636)
Written-off	–	–	(2,197)	(2,197)
Exchange realignment	–	–	(228)	(228)
Balance at 31 December 2022	1,817	368	2,118	4,303

The origination of new trade receivables net of those settled resulted in an increase in expected credit loss allowance at the end of 2022 and 2021.

Other financial assets and finance lease receivables

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 each 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 end of the reporting period 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;
- external credit rating (as far as available); and
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparties' ability to meet its obligations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Other financial assets and finance lease receivables (Continued)

A summary of the assumptions underpinning the Group's ECL model is as follows:

Category	Definition of category	Basis for recognition of ECL provision
Stage 1	Exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination.	Portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.
Stage 2	Exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired.	Lifetime expected losses (i.e. reflecting the remaining lifetime of the financial asset) is recognised.
Stage 3	Exposures 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.	Lifetime expected losses is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Other financial assets at amortised cost include deposits and other receivables, pledged bank deposits and cash and cash equivalents. The Group accounts for credit risk of other financial assets at amortised cost and finance lease receivables by appropriately providing for ECLs on a timely basis. In calculating the ECL rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

An analysis of changes in the corresponding ECL allowances is as follows:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1 January 2021, 31 December 2021 and 1 January 2022	9	–	–	9
Impairment loss recognised	152	3,709	–	3,861
Transfer	(35)	35	–	–
At 31 December 2022	<u>126</u>	<u>3,744</u>	<u>–</u>	<u>3,870</u>

Except for the abovementioned receivables, the Group has assessed that the expected credit losses rate for other financial assets at amortised costs is immaterial under 12-month ECL method. Thus, no loss allowance for other financial assets at amortised costs at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the remaining contractual maturities for the Group's financial liabilities, which are based on the undiscounted cash flows and the earliest date the Group can be required to pay.

	Carrying amount HK\$'000	Total contractual undiscounted cash flows HK\$'000	Repayment on demand or within 1 year HK\$'000	Repayment more than 1 year but less than 5 years HK\$'000
At 31 December 2022				
Trade and other payables	17,565	17,565	17,565	–
Interest-bearing bank borrowings	7,667	7,716	7,716	–
Lease liabilities	21,369	22,548	14,313	8,235
	<u>46,601</u>	<u>47,829</u>	<u>39,594</u>	<u>8,235</u>
At 31 December 2021				
Trade and other payables	19,811	19,811	19,811	–
Interest-bearing bank borrowings	859	885	885	–
Lease liabilities	18,486	18,958	13,389	5,569
	<u>39,156</u>	<u>39,654</u>	<u>34,085</u>	<u>5,569</u>

(c) Interest rate risk

The Group's interest rate risk arises primarily from finance lease receivables, bank deposits, interest-bearing bank borrowings and lease liabilities which are at fixed rates and expose the Group to fair value interest rate risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date.

	Exposure to foreign currencies (expressed in Hong Kong dollars)							
	2022				2021			
	Great British Pound \$'000	AED \$'000	United States Dollars \$'000	Renminbi \$'000	Great British Pound \$'000	AED \$'000	United States Dollars \$'000	Renminbi \$'000
Trade and other receivables	574	-	11,265	212	30	-	12,298	161
Cash and cash equivalents	503	-	12	19	2,168	-	7	44
Trade and other payable	(17)	(13)	(75)	(188)	(21)	(13)	(1,145)	(30)
Net exposure arising from recognised assets and liabilities	<u>1,060</u>	<u>(13)</u>	<u>11,202</u>	<u>43</u>	<u>2,177</u>	<u>(13)</u>	<u>11,160</u>	<u>175</u>

The following table indicates the instantaneous change in the Group's loss after tax (and accumulated losses) that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign currency risk (Continued)

	2022		2021	
	Increase/ (decrease) in foreign exchange rate	Effect on loss after tax and accumulated losses <i>HK\$'000</i>	Increase/ (decrease) in foreign exchange rate	Effect on loss after tax and accumulated losses <i>HK\$'000</i>
GBP	5% (5%)	(44) 44	5% (5%)	(91) 91
AED	5% (5%)	1 (1)	5% (5%)	1 (1)
RMB	5% (5%)	(2) 2	5% (5%)	(7) 7

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and accumulated losses measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into group presentation currency. The analysis is performed on the same basis for 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values measurement

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Level 3	
	2022	2021
	HK\$'000	HK\$'000
	<u> </u>	<u> </u>
Financial asset at FVPL		
— Investment in an unlisted fund	5,938	6,000
	<u> </u>	<u> </u>

During the years ended 31 December 2022 and 2021, there were no transfers between level 1 and level 2, or transfer into or out of level 3. The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Fair values measurement (Continued)

Information about level 3 the value measurement

The fair value was determined with reference to the net asset value of the unlisted fund, which mainly comprised bank balance.

The details of movements in fair value measurements in Level 3 are as follows:

	Financial assets at FVPL HK\$'000
At 1 January 2021	–
Purchased during the year	<u>6,000</u>
At 31 December 2021 and 1 January 2022	6,000
Change in fair value recognised in profit or loss during the year	<u>(62)</u>
At 31 December 2022	<u>5,938</u>

The Group did not have any other financial liabilities measured at fair value as at 31 December 2022 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

27. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel

Remuneration for key management of the Group, including amounts paid to certain directors and certain of the highest paid employees as disclosed in notes 8(a) and 8(b) respectively, during the year ended 31 December 2022 is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Directors' fee	493	346
Salaries, allowances and commissions	5,753	7,603
Discretionary bonus	199	183
Share-based payment expenses	–	120
Retirement benefits scheme contributions	72	65
	<u>6,517</u>	<u>8,317</u>

The compensation is within the following bands:

	2022 <i>Number of employees</i>	2021 <i>Number of employees</i>
Nil to HK\$1,000,000	5	3
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	2	2
HK\$2,000,001 to HK\$2,500,000	–	–
HK\$2,500,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$3,500,000	–	–
HK\$3,500,001 to HK\$4,000,000	–	1
	<u>8</u>	<u>7</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

27. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Other related party transactions

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year ended 31 December 2022:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Delivery charge and manpower support expense paid to a related company		
Winford Inc. Limited	4,196	3,792
Sales of home furniture and accessories to directors		
Mr. MCLENNAN John Warren	1	4
Ms. MOK Lai Yin Fiona (<i>note</i>)	8	–
Ms. FITZPATRICK Tracy-Ann	–	7
Disposal of a motor vehicle at net book value to a former director		
Ms. FITZPATRICK Tracy-Ann	–	20

Note: Ms. MOK Lai Yin Fiona resigned as the Company's director with effect from 15 March 2023, but up to the date of the approval of this annual report, she is still a director of certain subsidiaries of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

28. PARTICULARS OF SUBSIDIARIES

(a) Details of subsidiaries as at 31 December 2022 and 2021:

Name of subsidiary	Place of incorporation/ establishment	Issued and paid up capital	Equity interest attributable to the Company		Principal activities
			2022	2021	
Directly held					
Raeford Holdings Limited ("Raeford")	BVI	US\$100	100%	100%	Investment holding
Indirectly held					
Pacific Legend Development Limited ("Pacific Legend Development")	Hong Kong	HK\$10,000	100%	100%	Investment holding
Indigo Living Limited	Hong Kong	HK\$22,900,000	100%	100%	Sale and leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings
Indigo LLC ("Indigo Dubai") (i)	Dubai, UAE	AED300,000	100%	100%	Sale and leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings
Deep Ocean SPV Limited (ii)	Abu Dhabi, UAE	US\$1,000	100%	100%	Investment holding
Deep Blue Living Limited	Hong Kong	HK\$779,246	100%	100%	Investment holding
因邸高家居商貿(上海)有限公司 Indigo China Home Furniture Trading (Shanghai) Limited ("Indigo China")* (iii)(iv)	PRC	RMB14,309,734	100%	100%	Sale and leasing of home furniture and accessories and provision of design consultancy services for fitting out interiors with furnishings
上海因邸閣裝潢設計工程有限公司 Shanghai Indigo Decoration and Design Works Limited ("Indigo Shanghai")* (iii)(v)	PRC	RMB1,000,000	100%	100%	Provision of design consultancy services for fitting out interiors with furnishings
Ocean Blue Living Limited	Hong Kong	HK\$1,000	100%	100%	Franchising
Mega Ocean Limited	Hong Kong	HK\$1	100%	100%	Inactive
Ocean & Partners Limited	Hong Kong	HK\$1	100%	100%	Inactive
Indigo Overseas Projects Company Limited ("Indigo Overseas BVI") (vi)	BVI	US\$10,000	60%	60%	Investment holding
Indigo (Overseas Projects) Company Limited ("Indigo Oversea HK") (vi)	Hong Kong	HK\$100	60%	60%	Design, decoration & Renovation services
Miracle Ace International Limited [#]	BVI	US\$1	100%	–	Inactive
Vital Access Limited [#]	BVI	US\$1	100%	–	Inactive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

28. PARTICULARS OF SUBSIDIARIES (CONTINUED)

(a) Details of subsidiaries as at 31 December 2022 and 2021: (Continued)

These subsidiaries are incorporated during the year ended 31 December 2022.

* English name is a direct translation for identification purpose only, the official name is in Chinese.

Notes:

- (i) Pacific Legend Development is the legal owner of 49% of the issued share capital of Indigo Dubai. The notarised memorandum of association of Indigo Dubai provides that Pacific Legend Development has the sole right to control, manage and direct the financial and operating policies of Indigo Dubai and is entitled to 80% of Indigo Dubai's profits. Through the contractual arrangements, Pacific Legend Development is also entitled to the remaining 20% of Indigo Dubai's profits. Accordingly, Indigo Dubai has been accounted for as a wholly owned subsidiary of the Group.
- (ii) All the issued share capital of Deep Ocean SPV Limited is held by a corporate services provider in the UAE. Pacific Legend Development, through contractual arrangements with the corporate services provider, has 100% control and economic interest in Deep Ocean SPV Limited.
- (iii) Indigo China and Indigo Shanghai are registered in the form of wholly-foreign owned enterprises with limited liabilities in the PRC.
- (iv) Indigo China has a registered capital of RMB15,000,000 and RMB14,309,734 has been paid up to 31 December 2022.
- (v) Indigo Shanghai has a registered capital of RMB30,000,000 and RMB1,000,000 capital has been paid up to 31 December 2022.
- (vi) According to the joint venture agreement dated 29 September 2021 ("**JV Agreement**"), Raeford, a wholly subsidiary of the Company, and Ms. Chan Pui Man ("**Ms. Chan**") formed a non wholly-owned subsidiary, Indigo Overseas BVI and its Hong Kong subsidiary which is Indigo Oversea HK (collectively "**Indigo Overseas Companies**"). The scope of business of the Indigo Overseas Companies is intended to be engaged in interior design, decoration & renovation services, and any other business ancillary thereto as carried by the Indigo Overseas Companies.

Pursuant to the terms of the JV Agreement, the parties agreed to form a company by way of the share subscription following which the Indigo Overseas BVI will be owned as to 60% by Raeford and 40% by Ms. Chan after completion of the share subscription. The board of directors of the Indigo Overseas BVI consisted of three members, of which Raeford is entitled to nominate two directors. The chairman of the board of directors of the Indigo Overseas BVI is nominated by Raeford. The total capital commitment to be made by Raeford and Ms. Chan into the Indigo Overseas BVI is expected to be approximately HK\$10,000,000, and will be borne on a pro-rata basis with reference to their respective shareholding in the Indigo Overseas BVI by way of share subscription pursuant to the terms and conditions of the JV Agreement. The capital commitment of HK\$6,000,000 and HK\$4,000,000 have been fulfilled by Raeford and Ms. Chan as of 31 December 2021.

Details please refer to the Company's announcement dated on 29 September 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

28. PARTICULARS OF SUBSIDIARIES (CONTINUED)

(b) Information of material non-controlling interest ("NCI")

The following table lists out the information relating to Indigo Overseas BVI and Indigo Overseas HK which have material NCI. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
NCI percentage	40%	40%
Non-current assets	–	–
Current assets	6,256	10,000
Current liabilities	(54)	–
Non-current liabilities	–	–
Net assets	<u>6,202</u>	<u>10,000</u>
Carrying amount of NCI	2,481	4,000
Revenue	–	–
Loss for the year	(3,798)	–
Loss and total comprehensive expense	(3,798)	–
Loss allocated to NCI	(1,519)	–
Dividends paid to NCI	–	–
Cash flows generated used in operating activities, net	*–	(10,000)
Cash flows used in investing activities, net	–	–
Cash flows generated from financing activities, net	<u>–</u>	<u>10,000</u>

* Below HK\$1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2022 HK\$'000	2021 HK\$'000
Non-current asset		
Investment in a subsidiary	3,014	3,014
Current assets		
Amounts due from subsidiaries	25,222	53,859
Prepayments	204	199
Cash and cash equivalents	913	1,851
	<u>26,339</u>	<u>55,909</u>
Current liability		
Other payables	1,114	802
Net current assets	<u>25,225</u>	<u>55,107</u>
NET ASSETS	<u><u>28,239</u></u>	<u><u>58,121</u></u>
Capital and reserves		
Share capital	13,200	13,200
Reserves	15,039	44,921
TOTAL EQUITY	<u><u>28,239</u></u>	<u><u>58,121</u></u>

Approved and authorised for issue by the board of directors on 30 March 2023.

MCLENNAN John Warren
Director

WONG Ka Man
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

29. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Movements in the Company's reserves

	Share premium HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 January 2021	67,136	3,874	(34,930)	36,080
Loss and total comprehensive expense for the year	–	–	(11,145)	(11,145)
Share options lapsed	–	(856)	–	(856)
Equity settled share-based payment transactions	–	(4)	–	(4)
Proceeds from placing of new shares	22,240	–	–	22,240
Issuing expenses of placing new shares	(1,394)	–	–	(1,394)
As 31 December 2021 and 1 January 2022	87,982	3,014	(46,075)	44,921
Loss and total comprehensive expense for the year	–	–	(29,882)	(29,882)
Share options lapsed	–	(3,014)	3,014	–
Balance at 31 December 2022	87,982	–	(72,943)	15,039

30. COMMITMENT

The Group was committed at 31 December 2022 to enter into a new lease of 2 years that is commencing from 1 January 2023, the lease payment under which amounted to HK\$700,000 per annum plus HK\$240,000 per annum or 6% of the annual revenue from the leased premises, whichever is higher.

31. EVENTS OCCURRING AFTER THE REPORTING DATE

Completion of placing of new shares

On 9 January 2023, the Company and a placing agent entered into a placing agreement to subscribe a maximum of 264,000,000 new ordinary shares (the "Shares") of the Company at the placing price of HK\$0.052 per Share (the "Placing"). The Shares were issued under the general mandate granted to the Directors pursuant to an ordinary resolution of the Company passed at the annual general meeting held on 13 May 2022. The Shares, with par value of HK\$0.01 each, were eventually placed to not less than six independent placees on 6 February 2023 with net proceeds (after deduction of commission and other expenses of the Placing) of approximately HK\$13,390,000. The closing market price per share of the immediately preceding business day was HK\$0.065. The discount of the issue price to market price was approximately 20%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in Hong Kong dollars)

31. EVENTS OCCURRING AFTER THE REPORTING DATE (CONTINUED)

Completion of placing of new shares (Continued)

Details of the Placing are set out in the Company's announcements dated 9 January 2023, 20 January 2023 and 6 February 2023. The Directors intended to use the estimated net proceeds to possible merger and acquisition opportunities with reference to the Company's business update announcement dated 20 December 2022 and as general working capital of the Group.

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, and a new standard, HKFRS 17, Insurance Contracts, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these consolidated financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of accounting policies	1 January 2023
Amendments to HKAS 8, Definition of accounting estimates	1 January 2023
Amendments to HKAS 12, Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Amendments to HKAS 1, Classification of liabilities as current or non-current	1 January 2024

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that their adoption is unlikely to have a significant impact on the Group's consolidated financial statements.

33. COMPARATIVE FIGURES

Certain figures have been reclassified to conform to the current year's presentation of the consolidated financial statement.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, extracted from this annual report and prior years financial statements, is as follows:

	Year ended 31 December				
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
RESULTS					
Revenue	<u>204,038</u>	<u>244,349</u>	<u>219,859</u>	<u>307,718</u>	<u>278,103</u>
Loss before taxation	<u>(47,886)</u>	<u>(28,267)</u>	<u>(43,848)</u>	<u>(6,972)</u>	<u>(17,071)</u>
Income tax (expense)/credit	<u>(2)</u>	<u>101</u>	<u>18</u>	<u>(830)</u>	<u>(297)</u>
Loss for the year	<u><u>(47,888)</u></u>	<u><u>(28,166)</u></u>	<u><u>(43,830)</u></u>	<u><u>(7,802)</u></u>	<u><u>(17,368)</u></u>
Attributable to:					
Owners of the Company	<u>(46,369)</u>	<u>(28,166)</u>	<u>(43,830)</u>	<u>(7,802)</u>	<u>(17,368)</u>
Non-controlling interests	<u>(1,519)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u><u>(47,888)</u></u>	<u><u>(28,166)</u></u>	<u><u>(43,830)</u></u>	<u><u>(7,802)</u></u>	<u><u>(17,368)</u></u>
	As at 31 December				
	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
ASSETS AND LIABILITIES					
Total assets	<u>129,970</u>	<u>151,313</u>	<u>174,324</u>	<u>230,552</u>	<u>203,313</u>
Total liabilities	<u>(89,988)</u>	<u>(62,615)</u>	<u>(85,208)</u>	<u>(98,124)</u>	<u>(65,717)</u>
Net assets	<u><u>39,982</u></u>	<u><u>88,698</u></u>	<u><u>89,116</u></u>	<u><u>132,428</u></u>	<u><u>137,596</u></u>
Equity attributable to owners of the Company	<u>37,501</u>	<u>84,698</u>	<u>89,116</u>	<u>132,428</u>	<u>137,596</u>
Non-controlling interests	<u>2,481</u>	<u>4,000</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total equity	<u><u>39,982</u></u>	<u><u>88,698</u></u>	<u><u>89,116</u></u>	<u><u>132,428</u></u>	<u><u>137,596</u></u>