



PHOENITRON

Phoenitron Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8066)



**SEEING FURTHER
GOING FORWARD**

Annual Report 2023

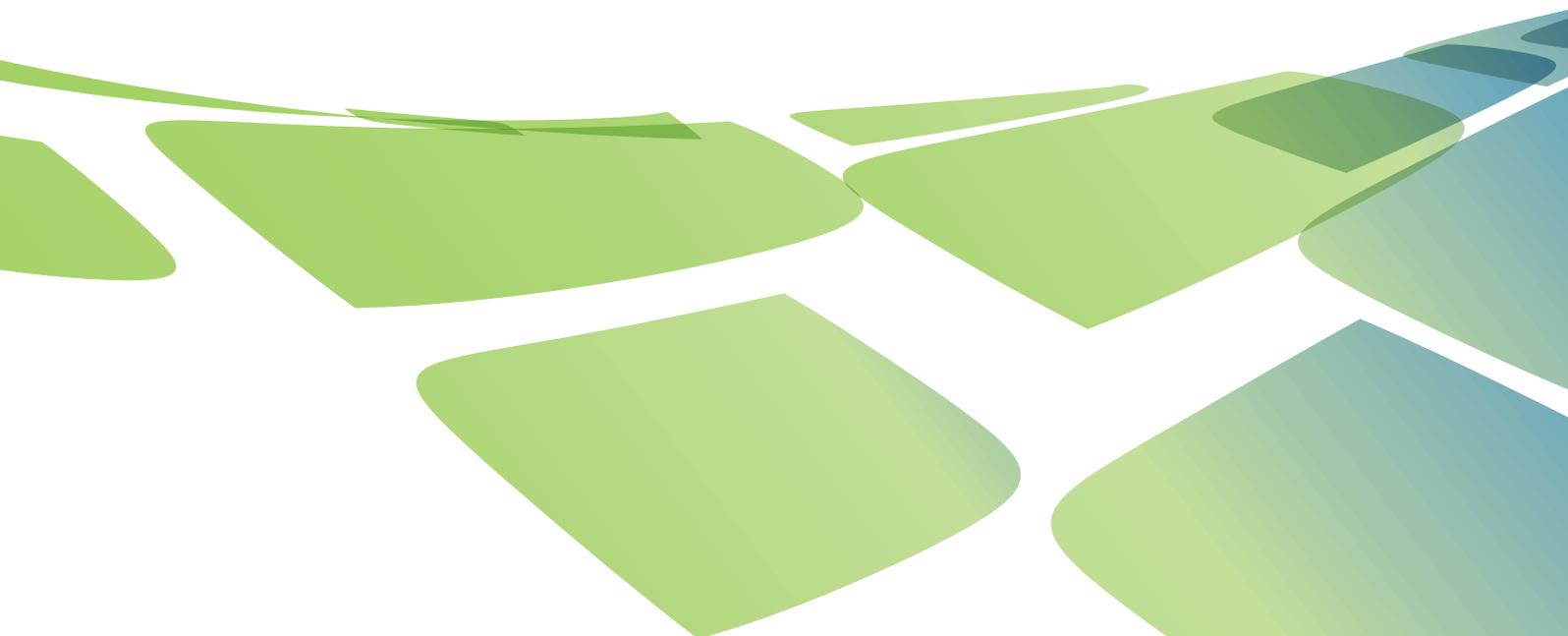
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This report, for which the directors (the “Directors”) of Phoenitron Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities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



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Corporate Information

DIRECTORS

Executive Directors

Lily Wu (*Chairman and Chief Executive Officer*)
Chang Wei Wen
Yang Meng Hsiu

Independent non-executive Directors

Chan Siu Wing, Raymond
Wong Ka Wai, Jeanne
Yeung Man Chit, Daniel

COMPLIANCE OFFICER

Lily Wu

COMPANY SECRETARY

Ching Shuk Wah, Shirley (*ACG HKACG*)

AUTHORISED REPRESENTATIVES

Lily Wu
Chang Wei Wen

AUDIT COMMITTEE

Wong Ka Wai, Jeanne (*Chairman*)
Chan Siu Wing, Raymond
Yeung Man Chit, Daniel

REMUNERATION COMMITTEE

Chan Siu Wing, Raymond (*Chairman*)
Chang Wei Wen
Lily Wu
Wong Ka Wai, Jeanne
Yeung Man Chit, Daniel

NOMINATION COMMITTEE

Lily Wu (*Chairman*)
Chan Siu Wing, Raymond
Wong Ka Wai, Jeanne
Yang Meng Hsiu
Yeung Man Chit, Daniel

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 710, 7th Floor, North Tower
World Finance Centre
Harbour City
Tsimshatsui, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3, Building D
PO Box 1586, Gardenia Court, Camana Bay
Grand Cayman KY1-1110, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKER

Nanyang Commercial Bank Limited

AUDITOR

Moore CPA Limited
(formerly known as Moore Stephens CPA Limited)
Registered Public Interest Entity Auditor
801-806 Silvercord, Tower 1
30 Canton Road
Tsimshatsui
Kowloon
Hong Kong

WEBSITE ADDRESS

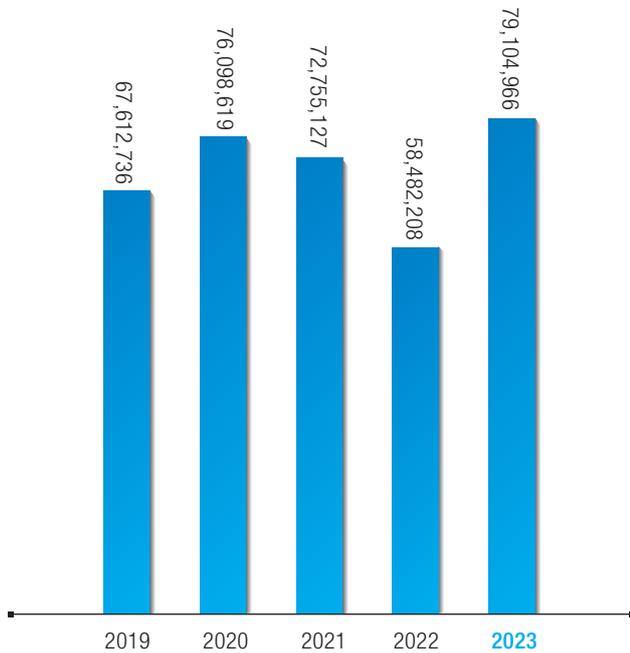
www.phoenitron.com

STOCK CODE

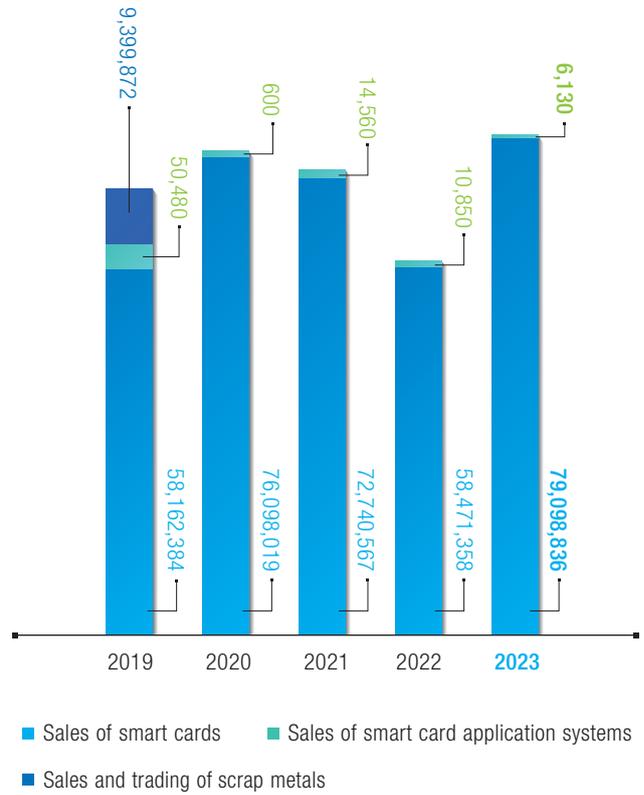
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Financial Highlights

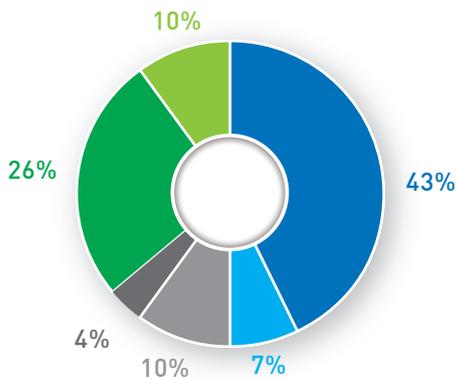
TURNOVER



TURNOVER BY SEGMENTS



TOTAL ASSETS AT 31 DECEMBER 2023



- Cash and cash equivalents
- Investment in TV programmes
- Other Assets
- Right-of-use assets
- Property, plant and equipment
- Trade and other receivables and deposits

Chairman's Statement

TO OUR SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to present the results of Phoenitron Holdings Limited (the "Company") and its subsidiaries (together, the "Group" or "Phoenitron") for the financial year ended 31 December 2023 (the "Reporting Period").

RESULTS

For the year ended 31 December 2023, the Company recorded a consolidated revenue of approximately HK\$79,105,000 (2022: approximately HK\$58,482,000) and profit attributable to owners of the Company of approximately HK\$4,336,000 (2022: loss of approximately HK\$7,735,000).

DIVIDEND

The Board of Directors (the "Board") of the Company does not recommend any payment of a final dividend for the Reporting Period.

BUSINESS AND OPERATION REVIEW

During the Reporting Period, the Group's financial result was principally derived from the contract manufacturing and sales of smart cards.

Contract manufacturing and sales of smart cards

During the Reporting Period, the Group's performance on contract manufacturing and sales of SIM cards business has shown notable improvement. The Group grew turnover in the year by 35.3% to approximately HK\$79.1 million (2022: approximately HK\$58.5 million). Segment-wise, profit of approximately HK\$14.25 million (2022: approximately HK\$1.46 million) was recorded for the SIM card market segment during the Reporting Period. The much improved results were due partly to the supply of chips recovering and being relatively stable during the Reporting Period, which enabled our SZ plant to clear its smart card order backlog, and also partly due to a high volume of high-value-added ancillary card services orders (e.g. packaging) placed by our customers during the Reporting Period. As additional favorable factors include the lowering of freight rates and removal of global logistics challenges, returning the business condition back to before the COVID-19 period.

In the fourth quarter, the facility landlord early terminated of the lease, leading to the relocation of the SZ plant to a new site near to and equally accessible as the previous plant. The relocation process was completed in early January 2024. As opposed to the old plant, all the workshops in the new SZ plant are on the same floor, which improves the overall production and operational efficiency by 15% to 20%. More importantly, the layout of the new SZ plant meets the requirement for the global SAS standard certification, which could increase the Group's customer opportunities in the future.

During the Reporting Period, we focused on strengthening our relationship with existing customers and at the same time expanding the client base and overall market share. Management also made greater efforts in implementing cost-cutting/streamlining measures and increasing productivity and operational efficiency.

Apart from the existing SIM card services, we will also be exploring more opportunities to provide certain higher-value-added card services (for example, machine-to-machine (M2M) smart card related business) in the coming year, with the aim of further diversifying its revenue base in the long term.

Chairman's Statement

Investment in TV Programmes

On 30 September 2019, Kartop (Hong Kong) Limited ("Kartop HK"), an indirectly wholly-owned subsidiary of the Company, entered into the Joint Production Agreement with 浙江優盛影視文化有限公司, pursuant to which Kartop HK agreed to invest RMB24.0 million (equivalent to approximately HK\$26.9 million) in the production of a TV Play "Snow Leopard II" (the "Target TV Play"), which is directed by Mr. Wang De Qing, produced by Mr. Zhang Jian and starring Mr. Zhang Ming En and Ms. Feng Yue and was tentatively targeting a release in China in 2020.

As disclosed in the Company's previous annual/interim reports, the Covid-19 outbreak caused a major film production delay of "Snow Leopard II", which pushed the release schedule to the third quarter of 2024.

According to the producer Mr. Zhang Jian, the Target TV Play is completed. Based on the revised timetable, since more time is needed to conclude sales contracts that could meet the target revenue, the Target TV Play is now targeting a release by the second quarter of 2025. Such a release date would mean Kartop HK should receive revenue share in late 2025.

The Group plans to develop new businesses in the advertising, media and entertainment industry. The Directors consider that the investment in the Target TV Play would be beneficial to the Group as it represents a first step forward in the implementation of the Group's development plan. The Directors also believe that the investment in the Target TV Play provides a good investment return and additional income to the Group. Apart from "Snow Leopard II", the management is looking for other similar investments in the future.

Financing

On 10 February 2023, the Company, as issuer, and Mr. Guo Rong Xiang (the "Subscriber"), an independent third party, as subscriber, entered into the subscription agreement (the "Subscription Agreement") in relation to the issue of convertible bonds (the "Convertible Bonds"). Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to issue to the Subscriber the Convertible Bonds in an aggregate principal amount of HK\$16,500,000 (the "Subscription"). Completion of the Subscription is subject to all necessary consent and approvals required to be obtained on the part of the Company and the Subscriber in respect of the Subscription and the transactions contemplated thereunder, as well as the GEM Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new share(s) fall to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bonds.

The gross proceeds from the issue of the Convertible Bonds will be HK\$16,500,000. The net proceeds from the issue of the Convertible Bonds of approximately HK\$16,200,000 are intended to be used as general working capital of the Group as well as for the continuous development of the existing smart cards and media and entertainment businesses of the Group.

The Directors consider raising funds by issuing the Convertible Bonds is justifiable considering the recent market conditions which represent an opportunity for the Company to enhance its working capital and strengthen its capital base and financial position for the continuous development of the existing smart cards and media and entertainment businesses of the Group. The Directors consider that the issue of the Convertible Bonds is an appropriate means of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of our existing shareholders.

As of the date of this report, the Subscription is yet to be completed. For details, please refer to the announcements of the Company.

Chairman's Statement

OUTLOOK

Going forward, the Company is cautiously optimistic about macroeconomic improvements and a better demand outlook. The management of smart cards segment is currently preparing to obtain SAS standard certification for the new SZ plant. It is expected that the certification process shall commence in the third quarter 2024 and be completed in the fourth quarter. At the same time, we will continue to explore more business opportunities, and to consolidate the existing SIM card businesses, manufacture with greater efficiency, seek cost and expense savings wherever possible, and to reinforce competitive strengths to solidify Phoenitron's leading position in existing markets by providing quality services and to convert challenges into opportunities. We believe, by applying the Company's funds in an appropriate manner and by utilising the unique investment opportunities of the Company, we will bring stable revenue and profit for our shareholders. The Board believes the diversification of our businesses will facilitate the long-term development of the Group and enhance our shareholder value.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to extend our gratitude to all members of the Board and staff for their dedication and contribution to the Group throughout the year 2023. I would also like to express my heartfelt appreciation to our shareholders, business partners, investors and customers for their continuous support.

Lily WU
Chairman

Hong Kong, 25 March 2024

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the financial year ended 31 December 2023 (the "Reporting Period"), the Group's financial result was principally derived from the contract manufacturing and sales of smart cards.

During the Reporting Period, the Group's revenue generated from sales of smart cards amounted to approximately HK\$79.10 million, an increase of approximately HK\$20.63 million or 35.3% as compared to the corresponding period in 2022 of approximately HK\$58.47 million. The increase was due to the supply of chips recovering and being relatively stable during the Reporting Period, hence enabling our SZ plant to clear its smart card order backlog.

The Group's revenue generated from sales of smart card application systems amounted to HK\$6,130 (2022: HK\$10,850).

Cost of Sales ("COS") and Gross Profit

During the Reporting Period, COS incurred for sales of smart cards amounted to approximately HK\$51.37 million, an increase of approximately HK\$7.87 million or 18.1% as compared to the corresponding period in 2022 of approximately HK\$43.50 million. The increase in COS was less than the increase in revenue year-on-year due to sales mix differences year-on-year, as well as the fact that some costs are relatively fixed in nature.

The Group recorded cost of sales from sales of smart card application systems of HK\$5,430 (2022: HK\$9,004).

Due to the increase in sales and better sales mix year-on-year, gross profit of the Group during the Reporting Period rose by approximately HK\$12.76 million or 85.2%, from the corresponding period in 2022 of approximately HK\$14.97 million, to approximately HK\$27.73 million.

Other Income

Other income of approximately HK\$1.2 million consisted of PRC government subsidies of approximately HK\$0.64 million, bank interest income of HK\$7,355 and sundry income of approximately HK\$0.56 million (2022: approximately HK\$1.02 million and was mainly comprised of government subsidy of approximately HK\$0.42 million, bank interest income of HK\$5,062 and sundry income of approximately HK\$0.59 million).

Other Gains/(Losses), Net

During the Reporting Period, other gains amounted to approximately HK\$1.41 million which was attributable to the net exchange gains and gain on early termination of leases relating to the old factory in Shenzhen, of each of approximately HK\$705,000 (2022: net exchange losses of approximately HK\$0.79 million).

Selling and Distribution Costs

During the Reporting Period, selling and distribution costs amounted to approximately HK\$2.7 million, representing an increase of approximately HK\$0.4 million, or 17.5%, as compared to the corresponding period in 2022 of approximately HK\$2.3 million. The increase was mainly due to increases in various sales-related expenses such as freight charges, sales commission and overseas travelling expenses, as a result of the substantial increase in year-on-year revenue.

Administrative Expenses

Administrative expenses recorded a slight increase of approximately HK\$0.54 million, or 2.5% during the Reporting Period, from approximately HK\$21.25 million for the corresponding period in 2022, to approximately HK\$21.79 million. The increase was primarily attributable to the increases in various administrative expenses in general.

Management Discussion and Analysis

Impairment Loss on Other Receivables

During the Reporting Period, an impairment loss on other receivables amounted to HK\$15,389 (2022: HK\$13,877).

Change in Fair Value of Investment in TV Programmes

During the Reporting Period, a fair value loss on investment in TV programmes of approximately HK\$1.32 million was recognised (2022: gain of approximately HK\$0.90 million).

According to Mr. Zhang Jian, the director of TV programme, more time is needed to conclude sales contracts which will delay the estimated timetable of revenue inflow by about sixteen months.

Finance Costs

During the Reporting Period, the Group's finance costs, representing the finance charges on lease liabilities, amounted to approximately HK\$0.19 million (2022: approximately HK\$0.28 million).

Income Tax Credit

During the Reporting Period, an income tax credit of HK\$4,707 (2022: Nil) was recognised.

Non-controlling Interests

During the Reporting Period, a loss of HK\$1,078 (2022: HK\$125) attributable to the non-controlling interests was recognised.

As a result of the foregoing, profit attributable to owners of the Company for the Reporting Period amounted to approximately HK\$4.34 million (2022: loss of approximately HK\$7.74 million).

LIQUIDITY AND FINANCIAL RESOURCES/CAPITAL STRUCTURE

During the Reporting Period, the Group financed its business operations and investments with cash, revenue generated from operating activities and other borrowings. As at 31 December 2023, the Group had cash and bank balances of approximately HK\$7.2 million (2022: approximately HK\$6.2 million) and other borrowing of approximately HK\$1.0 million (2022: approximately HK\$1.3 million).

As at 31 December 2023, the Group had current assets of approximately HK\$26.5 million (2022: approximately HK\$23.9 million) and current liabilities of approximately HK\$24.7 million (2022: approximately HK\$27.4 million). The current ratio, expressed as current assets over current liabilities, was 1.1 (2022: 0.9).

EMPLOYEE INFORMATION

As at 31 December 2023, the Group employed a total of 126 employees (2022: 139 employees), of which 13 were located in Hong Kong and the rest were located in the PRC and Taiwan. Employee cost, including Directors' remuneration, was approximately HK\$25.8 million (2022: approximately HK\$22.6 million) during the Reporting Period. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and participation in mandatory provident fund scheme, staff benefits include medical scheme and share options.

SIGNIFICANT INVESTMENTS

Save as disclosed in note 23 to the consolidated financial statements, there was no other significant investments for the year ended 31 December 2023.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2023.

Management Discussion and Analysis

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the “Chairman’s Statement” and “Management Discussion and Analysis” sections, there were no future plans for material investments or capital assets.

CHARGE ON GROUP ASSETS

At 31 December 2023, there is no charge on assets of the Group (2022: nil).

GEARING RATIO

The gearing ratio of the Group, expressed as a percentage of total borrowings including lease liabilities to total assets of the Group, was 11.3% (2022: 9.9%) as at 31 December 2023.

FINAL DIVIDEND

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

The Company was not aware of any shareholders that had waived or agreed to waive any dividend arrangement for the year ended 31 December 2023.

COMPETING INTERESTS

As at 31 December 2023, none of the Directors or the management shareholders or any of its respective associates (as defined under the GEM Listing Rules) of the Company had any interest in a business that competed or might compete with the business of the Group directly or indirectly.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s securities during the Reporting Period.

ANNUAL GENERAL MEETING

The annual general meeting (the “AGM”) of the shareholders of the Company will be held at 10:00 a.m., on Wednesday, 19 June 2024, at Function Room 2, 11th Floor, L’hotel Nina et Convention Centre, 8 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong and the notice of AGM will be published and dispatched to the shareholders in the manner as required by the GEM Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements to attend the AGM, the register of members of the Company will be closed from Friday, 14 June 2024 to Wednesday, 19 June 2024 (both dates inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for attending the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tricor Tengis Limited, at 17F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on Thursday, 13 June 2024.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2023.

INTRODUCTION

The Board believes that good corporate governance practices are essential for effective management and enhancement of shareholder value and investor confidence. The Company has taken a proactive approach in strengthening corporate governance practices, increasing transparency and sustaining accountability to shareholders through effective internal controls, under the leadership of its experienced and committed Board.

The Company has applied the principles set out in the Corporate Governance Code (the “CG Code”) contained in Appendix C1 to the GEM Listing Rules.

In the opinion of the Board, the Company has complied with all the code provisions set out in the CG Code throughout the year ended 31 December 2023 with the exception of the code provision C.2.1 which requires that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Details relating to the foregoing deviation are summarised below.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2023.

BOARD OF DIRECTORS

The Board is responsible for overseeing the management of the business and affairs of the Group with the overriding objective of enhancing share value. With delegating authorities from the Board, management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

Code provision C.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

Ms. Lily Wu (“Ms. Wu”) serves as the Chairman of the Board since 1 April 2006 and was further appointed as the Chief Executive Officer on 23 March 2009. The reasons for not splitting the roles of chairman and chief executive officer are (i) the size of the Group is still relatively small and thus not justified in separating the roles of chairman and chief executive officer; and (ii) the Group has in place an internal control system to perform the check and balance function. Ms. Wu is primarily responsible for leadership of the Group and the Board, setting strategic direction, ensuring the effectiveness of management in execution of the strategy approved by the Board. Execution responsibilities lie with another executive Director and senior management of the Company.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

Corporate Governance Report

BOARD COMPOSITION

Up to the date of this annual report, the Board comprises six Directors, including three executive Directors and three Independent non-executive Directors. Details of their composition by category are as follows:

Executive Directors

Ms. Lily Wu (*Chairman and Chief Executive Officer*)
 Mr. Chang Wei Wen
 Mr. Yang Meng Hsiu

Independent non-executive Directors

Mr. Chan Siu Wing, Raymond
 Ms. Wong Ka Wai, Jeanne
 Mr. Yeung Man Chit, Daniel

Biographical details of Directors are set out on page 21 of this annual report.

There are no financial, business, family or other material or relevant relationships between members of the Board.

The Directors, with relevant and sufficient experience and qualifications, have given sufficient time and attention to the affairs of the Group and have exercised due care and fiduciary duties to the significant issues of overall business planning, management and strategic development of the Group.

Board and general meetings

The Board conducts regular scheduled meetings on a quarterly basis. Ad-hoc meetings are convened when circumstances require. During the year ended 31 December 2023, there were four board meetings and one general meeting held. The Directors can attend meetings in person or via telephone conference as permitted under the articles of association of the Company.

Details of individual attendance of all Directors at the board meetings and general meeting are as follows:

| Name of Directors | Attendance of Board meetings | Attendance of general meeting |
|--|------------------------------|-------------------------------|
| Executive Directors | | |
| Ms. Lily Wu | 4/4 | 1/1 |
| Mr. Chang Wei Wen | 4/4 | 1/1 |
| Mr. Yang Meng Hsiu | 4/4 | 0/1 |
| Independent Non-executive Directors | | |
| Mr. Chan Siu Wing, Raymond | 4/4 | 1/1 |
| Ms. Wong Ka Wai, Jeanne | 4/4 | 1/1 |
| Mr. Yeung Man Chit, Daniel | 4/4 | 1/1 |

Corporate Governance Report

Information of material issues, due notice of meeting and minutes of each Directors' meeting have been sent to each of the Directors for their information, comment and review.

The Board is responsible to set strategic plans, formulates policies and provides effective oversight over the management on the operational affairs, and members of the Board are individually and collectively accountable to the shareholders of the Company. The management is responsible for the daily operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

Independent non-executive Directors

Each Director is required to keep abreast of his responsibilities as a director of the Company and of the Company's conduct, business activities and development. Given the essential unitary nature of the Board, independent non-executive Director has the same duties of care and skill and fiduciary duties as executive Directors. Independent non-executive Director brings a wide range of business and financial expertise, experience and independent judgment to the Board. Functions of independent non-executive Director include but should not be limited to the following:

- i. participating in Board meetings to bring independent judgment;
- ii. taking the lead where potential conflict of interests may arise;
- iii. serving on the audit, nomination and remuneration committees if invited; and
- iv. scrutinizing the Group's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

Pursuant to Rule 5.05 of the GEM Listing Rules, the Board has appointed three independent non-executive Directors, representing half of the Board and all of them have appropriate professional accounting qualifications or related experiences on financial management which is in compliance with Rule 5.05A and 5.05 of the GEM Listing Rules. Currently, there is no specific terms of service for each of Mr. Chan Siu Wing, Raymond, Ms. Wong Ka Wai, Jeanne and Mr. Yeung Man Chit, Daniel and the appointment may continue thereafter unless and until terminated by either the Company or each of Mr. Chan, Ms. Wong and Mr. Yeung by giving not less than one month's prior notice in writing and such appointment is subject at all times to the Articles of Association.

The Company strongly supports the principle of Board independence. Mr. Chan Siu Wing, Raymond and Ms. Wong Ka Wai Jeanne have been serving the Board as independent non-executive Directors for more than nine years and have consistently demonstrated their willingness to exercise independent judgments and provide objective challenges to management. They have actively participated in board meetings and board committee meetings held during the year and have shown themselves able to give constructive and independent advice to the Board over significant issues. Therefore, the Board considers that both of them remain independent, notwithstanding the length of their tenure as independent non-executive Directors. The Board has assessed the independence of all independent non-executive directors and considers that all of them are independent as required under the GEM Listing Rules. All independent non-executive Directors have also confirmed their independence pursuant to Rule 5.09 of the GEM Listing Rules by providing an annual confirmation of their independence.

Corporate Governance Report

Continuous Professional Development

Pursuant to Code Provision C.1.4, which has come into effect from 1 April 2012, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training course or reading relevant materials on the topics related to corporate governance and regulations.

The individual training record of each Director received for the year ended 31 December 2023 is summarised below:

| Name of Directors | Attending seminar(s)/ Programme(s)/ relevant materials in relation to the business or Directors' duties |
|--|---|
| Executive Directors | |
| Ms. Lily Wu | Yes |
| Mr. Chang Wei Wen | Yes |
| Mr. Yang Meng Hsiu | Yes |
| Independent non-executive Directors | |
| Mr. Chan Siu Wing, Raymond | Yes |
| Ms. Wong Ka Wai, Jeanne | Yes |
| Mr. Yeung Man Chit, Daniel | Yes |

All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training or reading relevant materials in order to develop and refresh their knowledge and skills.

BOARD COMMITTEES

Audit committee

The audit committee currently comprises three independent non-executive Directors and is chaired by Ms. Wong Ka Wai, Jeanne. The rest of members are Mr. Chan Siu Wing, Raymond and Mr. Yeung Man Chit, Daniel. At the discretion of the audit committee, executive Directors and/or senior management personnel, overseeing the Group's finance and internal control functions, may be invited to attend meeting. The primary role and function of the audit committee are to review the Company's financial controls, internal control and risk management systems; to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; to review the Company's consolidated financial statements, annual reports, interim reports and quarterly reports, and to provide advice and comment thereon to the Board.

Corporate Governance Report

The audit committee held four meetings to review the quarterly, interim and annual results during the year ended 31 December 2023 as well as discussed and reviewed the Group's internal control and audit works with the auditor of the Group. Details of the attendance of the audit committee meetings are as follows:

| Members | Attendance |
|----------------------------|------------|
| Ms. Wong Ka Wai, Jeanne | 4/4 |
| Mr. Chan Siu Wing, Raymond | 4/4 |
| Mr. Yeung Man Chit, Daniel | 4/4 |

The Group's unaudited quarterly and interim results and annual audited results during the year ended 31 December 2023 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

Nomination committee

The nomination committee comprises two executive Directors and three independent non-executive Directors and is chaired by Ms. Lily Wu. The rest of the members are Mr. Chan Siu Wing, Raymond, Ms. Wong Ka Wai, Jeanne, Mr. Yeung Man Chit, Daniel and Mr. Yang Meng Hsiu. The primary role and function of the nomination committee are to review and monitor the structure, size and composition of the Board at least once a year and make recommendations on any proposed changes to the Board to carry out the Company's corporate strategies; to assess the independence of independent non-executive Directors; and to make recommendations to the Board succession planning.

Diversity of the Board

The nomination committee is also responsible for the review of the Board's diversity policy, considering factors including but not limited to gender, age, cultural and educational background, ethnicity, industry experience, professional experience, skills, knowledge and length of service of Board members, and review the measurable objectives that the Board has set for implementing the Board's diversity policy, and monitor the progress on achieving the measurable objectives. With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee had reviewed and is satisfied with the current composition of the Board.

The nomination committee held one meeting during the year ended 31 December 2023. Details of the attendance of the nomination committee meetings are as follows:

| Members | Attendance |
|----------------------------|------------|
| Ms. Lily Wu | 1/1 |
| Mr. Chan Siu Wing, Raymond | 1/1 |
| Ms. Wong Ka Wai, Jeanne | 1/1 |
| Mr. Yang Meng Hsiu | 1/1 |
| Mr. Yeung Man Chit, Daniel | 1/1 |

Corporate Governance Report

Director's Nomination Policy

The Nomination Committee shall assist the Company in nominating suitable candidates to the Board. The Board shall make recommendations to the Company's shareholders on the appointment of Directors and succession planning for Directors.

The director's nomination policy sets out the key selection criteria, procedures and principles adopted by the Nomination Committee in making any such recommendations.

Selection Criteria

The Nomination Committee shall consider the following factors when assessing the suitability of a proposed candidate:

- (a) reputation for integrity;
- (b) accomplishment and experience in the business and industry;
- (c) commitment of the candidate to devote sufficient time and interest to carry out his/her duties;
- (d) diversity in all aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- (e) independence of the candidate;
- (f) for a proposed re-appointment of a Director, the number of years he/she has served the Company; and
- (g) other relevant factors considered by the Nomination Committee or the Board as appropriate.

Nomination Procedures

Subject to provisions in the memorandum of association and Articles of Association, if the Board recognises the need to appoint or re-appoint a Director, the following procedures should be followed:

- (a) the secretary of the Nomination Committee shall convene a meeting of the Nomination Committee, and invite nominations of candidates from the Board, if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee shall also be entitled to put forward candidates who are not nominated by the Board;
- (b) the Nomination Committee shall identify or select candidates recommended to the Nomination Committee pursuant to criteria set out above;
- (c) the Nomination Committee shall be entitled to use any process it deems appropriate to evaluate candidates, including but not limited to personal interviews, background checks, presentations or written submissions by candidates and third party references;
- (d) to fill casual vacancies, the Nomination Committee shall make recommendations for consideration and approval of the Board. To propose candidates to stand for election at a general meeting of the Company, the Nomination Committee shall make nominations for the Board's consideration and recommendation;
- (e) the Board shall deliberate and decide on the appointment based on the recommendation of the Nomination Committee;

Corporate Governance Report

- (f) appointments of Directors should be confirmed by a letter of appointment or Director service agreement, as appropriate, setting out the key terms and conditions of the appointment of Directors;
- (g) pursuant to Rule 17.46A of the GEM Listing Rules, where shareholders are required to vote on electing or re-electing Directors, the circular accompanying the notice of the relevant general meeting should include all information of the candidates required under Rule 17.50(2) of the GEM Listing Rules;
- (h) a shareholder shall be entitled to serve a notice to the company secretary within the lodgment period of its intention to propose a resolution to elect a person as a Director, without recommendation of the Board or nomination of the Nomination Committee, other than those candidates set out in the shareholder circular. The particulars of the candidates proposed shall be sent to all shareholders for information by a supplementary circular;
- (i) a candidate shall be entitled to withdraw his/her candidature at any time before the general meeting by serving a notice, in writing, to the company secretary; and
- (j) the Board shall have the final decision on matters relating to its recommendation of candidates to stand for election at any general meeting.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in code provision A.2.1 of the Corporate Governance Code.

During the Reporting Period, the Board had reviewed the Company's corporate governance policies and practices, reviewed and monitored the training and continuous professional development of the Directors and senior management, reviewed and monitor the Company's policies and practices in compliance with legal and regulatory requirements, developed, reviewed and monitored the code of conduct and compliance manual applicable to employees and the Directors, and reviewed the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Remuneration committee

The remuneration committee comprises two executive Directors and three independent non-executive Directors and is chaired by Mr. Chan Siu Wing, Raymond. The rest of the members are Mr. Chang Wei Wen, Ms. Lily Wu, Ms. Wong Ka Wai, Jeanne and Mr. Yeung Man Chit, Daniel. The primary role and function of the remuneration committee are to review and make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration; and to review and make recommendations to the Board the remuneration packages of all Directors and senior management.

The remuneration committee held one meeting during the year ended 31 December 2023. Details of the attendance of the remuneration committee meetings are as follows:

| Members | Attendance |
|----------------------------|------------|
| Mr. Chan Siu Wing, Raymond | 1/1 |
| Mr. Chang Wei Wen | 1/1 |
| Ms. Lily Wu | 1/1 |
| Ms. Wong Ka Wai, Jeanne | 1/1 |
| Mr. Yeung Man Chit, Daniel | 1/1 |

Corporate Governance Report

Compliance Officer

Ms. Lily Wu was appointed as the Compliance Officer of the Company on 28 December 2005. Details of her qualifications and experience are set out in the section headed “Profiles of Directors and Senior Management” on page 21 of this annual report.

Company Secretary

Ms. Ching Shuk Wah, Shirley (“Ms. Ching”) was the Company Secretary of our Company. Details of Ms. Ching’s qualifications and experience are as below:

Ms. Ching, aged 51, has over 26 years’ experience in corporate secretarial services, administration and management, international trade and trade financing. She joined SWCS Corporate Services Group (Hong Kong) Limited (“SWCS”, a corporate service provider) in January 2020 and is currently an assistant manager of SWCS, responsible for assisting in providing company secretarial services. Ms. Ching holds a bachelor degree in Business Administration from the University of Western Sydney and master degree in Corporate Governance from the Hong Kong Metropolitan University (formerly “The Open University of Hong Kong”), is a Chartered Secretary, a Chartered Governance Professional and a member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

Ms. Ching had taken no less than 15 hours of relevant professional training during the year ended 31 December 2023.

Directors’ and auditor’s responsibilities for the consolidated financial statements

All Directors acknowledge their responsibility to prepare the Group’s consolidated financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the consolidated financial statements for the year ended 31 December 2023, the Board has selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements of the Group on a going concern basis.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The statement of auditor about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor’s Report on pages 28 to 31. The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern.

AUDITOR’S REMUNERATION

During the year ended 31 December 2023, the fees paid/payable to the auditor of the Company in respect of audit and non-audit services provided by the auditor of the Company were as follows:

| Nature of services | Amount HK\$’000 |
|--------------------|--------------------|
| Audit services | 730 |
| Non-audit services | – |

Corporate Governance Report

INTERNAL CONTROL AND RISK MANAGEMENT

The Directors are responsible for the internal control of the Group and for reviewing its effectiveness.

The internal control system of the Group comprises of a comprehensive organisational structure and delegation of authorities assigned to individuals based on experience and business need.

Control procedures have been designed to safeguard assets against unauthorised use and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; and to provide reasonable assurance against material misstatement, loss or fraud.

The overall risk management functions of the Group are under responsibility of management comprising the executive director, and management team. There are established control procedures to identify, assess, control and report to each of the four major types of risks consisting of business and market risk, compliance risk, financial and treasury risk and operational risk.

The Group has engaged an independent professional advisor (the "Internal Control Advisor") to carry out the internal audit functions by performing an independent appraisal of the adequacy and effectiveness of the Group's internal control systems.

The Internal Control Advisor is independent of the Group's daily operation and carries out appraisal of the internal control systems by conducting interviews, walkthroughs and tests of operational effectiveness of the procedures, systems and controls established by the Group including various operational cycles of the Group such as the revenue and receipts, purchase and payments, fixed assets and capital expenditure management, financial reporting, payroll and human resource management.

The Board, through its review and the review made by Audit Committee, concluded that the internal control systems and risk management were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Principal risks and uncertainties

A number of factors may affect the results and business operations of the Group, major risks are summarised below.

Reliance on limited number of customers

The Group derived a significant portion of our revenue from a limited number of customers. For the year ended 31 December 2023, the five largest customers of the Group contributed 97% of total revenue to the Group. There is no assurance that these significant customers will continue their business relationship with the Group or that the revenue generated from the customers will increase or be maintained in the future. The Group will continue to expand the customer base to mitigate the risk.

Handling and Dissemination of Inside Information

The Company has established and maintained the procedures and internal controls for the handling and dissemination inside information. The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with Rules 5.46 to 5.67 of the GEM Listing Rules. Other employees of the Group who are likely to be in possession of inside information of the Company are also subject to dealing restrictions. The Group has strictly prohibited unauthorised use of confidential or inside information or any use of such information for the advantage of himself or others. Any inside information and any information which may potentially constitute inside information is promptly identified, assessed and escalated to the Board and for the Board to decide on the need for disclosure. Inside information and other information which is required to be disclosed pursuant to the GEM Listing Rules will be announced on the respective websites of GEM and the Company in due course.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Convening of extraordinary general meeting

Pursuant to article 58 of the articles of association of the Company (the "Articles of Association"), the Directors of the Company, notwithstanding anything in its bye-laws shall, on the requisition of Shareholders of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene an extraordinary general meeting ("EGM") of the Company.

The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the Company Secretary at the Company's principal place of business in Hong Kong, and may consist of several documents in like form each signed by one or more requisitionists.

The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board of Directors to include the resolution in the agenda for the EGM.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists may themselves convene a meeting.

Enquiries put to the Board

The enquiries must be in writing with contact information of the requisitionists and deposited at the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for putting forward proposals at shareholders' meetings

Pursuant to article 59(1) of the Articles of Association, in order to put forward proposals at an annual general meeting ("AGM"), or EGM, the Shareholders should submit a written notice of those proposals with the detail contact information to the Company Secretary at the Company's principal place of business in Hong Kong. The request will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the resolution in the agenda for the general meeting.

The notice period to be given to all the Shareholders for consideration of the proposal raised by the Shareholders concerned at the shareholders' meetings are as follows:

- An AGM must be called by notice in writing of not less than twenty-one (21) clear days
- All other general meetings (including EGMs) must be called by notice in writing of not less than fourteen (14) clear days

INVESTOR RELATIONS

The Company has formulated the shareholders' communication policy and established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include (i) the publication of quarterly, interim and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders to raise comments and exchanging views with the Board; (iii) updated and key information of the Group available on the websites of GEM and the Company; (iv) the Company's website offering communication channel between the Company and its shareholders and investors; and (v) the Company's share registrars in Hong Kong serving the shareholders in respect of all share registration matters.

Corporate Governance Report

The Company aims to provide its shareholders and investors with high standards of disclosure and financial transparency. The Board is committed to provide clear, detailed, timely manner and on a regular basis information of the Group to shareholders through the publication of quarterly, interim and annual reports and/or dispatching circulars, notices, and other announcements.

During the Reporting Period, the Company had reviewed its shareholders' communication policy and examined the implementation and effectiveness of the shareholders' communication policy. The Company believes that the shareholders' communication policy is still appropriate and effective in providing a channel for shareholders to communicate on various matters affecting the Company, as well as the Company to solicit and understand the opinions of shareholders and stakeholders.

Significant Changes in Constitutional Documents

There were no significant changes in the constitutional documents of the Company for the year ended 31 December 2023.

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Lily WU, aged 61, is an executive Director and the Chairman of the Company. She was appointed as Director of the Company in June 2005. Ms. Wu has 37 years of experience in the technology sector investment research and industry analysis. She is currently an independent investment analyst on technology companies for private equity firms, and has previously worked as a director in equity research for Salomon Smith Barney, and as a vice president in equity research for Bankers Trust. Ms. Wu earned a Bachelor of Science degree with Honors in Engineering from the California Institute of Technology.

CHANG Wei Wen, aged 47, is an executive Director. He was appointed as a non-executive Director of the Company in May 2006 and was re-designated as an executive Director of the Company in December 2006 when he assumed key management and operating responsibilities for the Group. He formerly worked as an assistant to directors of a Taiwan company, which is principally engaged in international trade and wholesale of information software and electronic materials. Mr. Chang obtained a Bachelor of Organization Management degree from Patten University.

YANG Meng Hsiu, aged 47, is an executive Director. He was appointed as Director of the Company in March 2011. Mr. Yang graduated from The Leader University of Taiwan (currently known as The University of Kang Ning) with a bachelor degree in leisure management. Mr. Yang had more than 18 years of experience in product planning and brand name marketing business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Siu Wing, Raymond, aged 59, is an independent non-executive Director. He is the chairman of the remuneration committee and one of the members of the audit committee and the nomination committee of the Company. Mr. Chan has over 33 years of experience in the field of accounting, taxation, finance and trust. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a founding member of the Macau Society of Certified Practising Accountants. Mr. Chan holds a Bachelor of Economics degree from the University of Sydney. Mr. Chan holds the position of independent non-executive director of Quali-Smart Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange. Mr. Chan was formerly an independent non-executive director of each of Nature Home Holding Company Limited and Hong Kong Finance Group Limited, companies whose shares are listed on the Main Board of the Stock Exchange, and has resigned with effect from 31 October 2021 and 1 November 2022 respectively. Mr. Chan joined the Company in February 2007.

WONG Ka Wai, Jeanne, aged 59, is an independent non-executive Director. She is the chairman of the audit committee and one of the members of the remuneration committee and the nomination committee of the Company. Ms. Wong has over 34 years of experience in finance, accounting, taxation and corporate affairs. Ms. Wong is a member of the Institute of Chartered Accountants of Australia, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a member of the Society of Trust and Estate Practitioners. She holds a Bachelor Degree in Economics from the University of Sydney, Australia. Ms. Wong is currently the Managing Director of Wellex Consultancy Limited as well as the Chief Financial Officer of a local law firm. Ms. Wong is also an independent non-executive director of Good Fellow Healthcare Holdings Limited, a company whose shares are listed on GEM of the Stock Exchange. Ms. Wong joined the Company in September 2001.

YEUNG Man Chit, Daniel, aged 50, is an independent non-executive Director. He is one of the members of each of the audit committee, the remuneration committee and the nomination committee of the Company. Mr. Yeung has over 28 years of experience in accounting, financial management and company secretarial works. Mr. Yeung is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a Bachelor of Arts (Hons) Degree in Accountancy from The Hong Kong Polytechnic University. Mr. Yeung is the financial controller and company secretary of Chaoda Modern Agriculture (Holdings) Limited (stock code: 682), a company listed on the Main Board of the Stock Exchange. Mr. Yeung has not held any other directorship in the last three years in other public company. Mr. Yeung joined the Company in December 2022.

Directors' Report

The Directors have pleasure in submitting the annual report of the Company together with its audited consolidated financial statements for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of management services. Details of the principal activities of its subsidiaries are set out in note 33 to the consolidated financial statements.

The revenue of the Group is derived principally from the contract manufacturing and sales of smart cards.

RESULTS

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss and other comprehensive income on page 32.

BUSINESS REVIEW

A business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, can be found in the Management Discussion and Analysis and Corporate Governance Report set out on pages 7 to 9 and pages 10 to 20 of this annual report, respectively.

DIVIDEND POLICY

The Company has adopted a general dividend policy that aims to provide shareholders of the Company out of the Group's profit attributable to shareholders in any financial year. In proposing any dividend payout, the Board shall take into account, inter alia, the following factors:

- the Group's actual and expected financial performance;
- shareholders' interests;
- retained earnings and distributable reserves of the Company and each of the other members of the Group;
- the level of the Group's debts to equity ratio, return on equity and financial covenants to which the Group is subject;
- possible effects on the Group's creditworthiness;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- the Group's expected working capital requirements and future expansion plans;
- liquidity position and future commitments at the time of declaration of dividend;
- taxation considerations;
- statutory and regulatory restrictions;
- general business conditions and strategies;
- 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 Company; and
- other factors that the Board deems appropriate.

Directors' Report

The payment of dividend is also subject to any restrictions under the applicable laws, the Company's Memorandum and Articles of Association.

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

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 35 and note 31 to the consolidated financial statements respectively.

DIRECTORS

The Directors who held office during the financial year and up to the date of this report were:

Executive Directors

Lily Wu (*Chairman and Chief Executive Officer*)

Chang Wei Wen

Yang Meng Hsiu

Independent non-executive Directors

Chan Siu Wing, Raymond

Wong Ka Wai, Jeanne

Yeung Man Chit, Daniel

In accordance with Article 87(1) of the Articles of Association, Mr. Chan Siu Wing, Raymond and Ms. Wong Ka Wai, Jeanne retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 18 to the consolidated financial statements.

DONATIONS

During the Reporting Period, the Company did not make any donation.

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2023.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contracts of significance (as defined in rule 18.25 of the GEM Listing Rules) to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

SHARE CAPITAL AND SHARE OPTIONS

Details of the movement in the Company's authorised and issued share capital and share option scheme during the year are set out in notes 29 and 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserve available for distribution represents the contributed surplus, share premium, other reserves and accumulated losses. At the balance sheet date, the Company had no reserves available for distribution.

DIRECTORS' INTERESTS AND CHIEF EXECUTIVES' INTERESTS IN SHARE CAPITAL AND OPTIONS

As at 31 December 2023, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") which would have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which would be required pursuant to section 352 of the SFO or to be entered in the register as referred to therein, or otherwise required to be notified to the Company and the Stock Exchange pursuant to Model Code, were as follows:

| Name of Director | Nature of interest | Long/short position | Number of shares of the Company | Number of Underlying shares of the Company | Approximate percentage of interest in the Company's issued share capital |
|---|--------------------|---------------------|---------------------------------|--|--|
| Executive Director | | | | | |
| Lily Wu (<i>Note 1</i>) | Beneficial owner | Long | 100,000 | 4,500,000 | 0.88 |
| Chang Wei Wen (<i>Note 1</i>) | Beneficial owner | Long | 525,000 | 4,500,000 | 0.96 |
| Yang Meng Hsiu (<i>Note 1</i>) | Beneficial owner | Long | 4,300,000 | 4,500,000 | 1.68 |
| Independent non-executive Director | | | | | |
| Chan Siu Wing, Raymond (<i>Note 2</i>) | Beneficial owner | Long | – | 450,000 | 0.09 |
| Wong Ka Wai, Jeanne (<i>Note 2</i>) | Beneficial owner | Long | – | 450,000 | 0.09 |

Notes:

- These include 4,500,000 Share Options conferring rights to subscribe for 4,500,000 Shares.
- These include 450,000 Share Options conferring rights to subscribe for 450,000 Shares.

Directors' Report

Save as disclosed above, as at 31 December 2023, none of the Directors nor chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which was required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which was required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2023, as far as is known to the Directors, the persons (other than Directors or chief executive of the Company) or corporations who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

| Name of shareholders | Type of interests | Long/short position | Number of shares of the Company | Approximate percentage of Interests |
|--|---------------------------------|---------------------|---------------------------------|-------------------------------------|
| Golden Dice Co., Ltd (<i>Note 1</i>) | Beneficial | Long | 78,802,512 | 15.00 |
| Best Heaven Limited (<i>Note 1</i>) | Beneficial | Long | 31,586,500 | 6.01 |
| Mr. Tsai Chi Yuan (<i>Note 1</i>) | Interests in controlled company | Long | 110,389,012 | 21.01 |

Note:

1. Mr. Tsai Chi Yuan is deemed to be a substantial shareholder of the Company by virtue of his 100% beneficial interest in Golden Dice Co., Ltd and Best Heaven Limited.

Save as disclosed above, as at 31 December 2023, the Directors and the chief executive of the Company were not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SENIOR MANAGEMENT

The Group regards the executive Directors and independent non-executive Directors as members of the senior management team.

The emoluments paid or payable to members of senior management were within the following bands:

| Emolument bands | Number of individuals | |
|-------------------------------|-----------------------|------|
| | 2023 | 2022 |
| Nil – HK\$1,000,000 | 5 | 5 |
| HK\$1,000,001 – HK\$1,500,000 | 1 | 1 |

Directors' Report

The biographies of members of the senior management team at the date of this annual report are disclosed in the section headed "Profiles of Directors and Senior Management" in this annual report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Environmental, Social and Governance Report of the Company prepared in accordance with Appendix C2 to the GEM Listing Rules will be published on the Stock Exchange's website and the Company's website at www.phoenixtron.com at the same time as the publication of the annual report of the Company.

EVENT AFTER THE REPORTING PERIOD

Saved as disclosed in note 39 to the consolidated financial statements, there is no other material event after the Reporting Period.

EQUITY LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme", no equity-linked agreements were entered into by the Company at any time during the year ended 31 December 2023 or subsisted at the end of the year.

Compliance with Relevant Laws and Regulations

The Group recognises the importance of compliance with legal and regulatory requirements and the risk of non-compliance with such requirements. The Group conducts on-going reviews of newly enacted/revised laws and regulations affecting its operations. The Company is not aware of any non-compliance in any material respect with the relevant laws and regulations that have a significant impact on the business and operation of the Group for the year ended 31 December 2023.

Relationship with Employees, Suppliers, Customers and Other Stakeholders

The Group understands that the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

MAJOR CUSTOMERS AND SUPPLIERS

Information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

Sales

| | |
|---------------------------------------|-----|
| – the largest customer | 37% |
| – five largest customers in aggregate | 97% |

Directors' Report

Purchases

- the largest supplier 59%
- five largest suppliers in aggregate 87%

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had an interest in the Group's five largest suppliers or customers during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association, or the laws and regulations of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

PERMITTED INDEMNITY PROVISIONS

The Articles provide that every Director shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses, whatsoever which they or any of them may incur as a result of any act or failure to act in carrying out their functions other than such liability (if any) that they may incur by reason of their own actual fraud or willful defaults.

The Company has arranged for appropriate insurance coverage in respect of potential legal actions against its Directors and senior management.

SUFFICIENCY OF PUBLIC FLOAT

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

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 92 of the annual report.

INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 December 2023 have been audited by Moore CPA Limited (formerly known as Moore Stephens CPA Limited). A resolution to re-appoint Moore CPA Limited as auditor of the Company will be proposed at the forthcoming AGM.

For and on behalf of the Board

Lily Wu

Chairman

Hong Kong, 25 March 2024

Independent Auditor's Report

**Moore CPA Limited**

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**Independent Auditor's Report to the Shareholders of
Phoenitron Holdings Limited**

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Phoenitron Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 91, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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 MATTER

Key audit matter is the matter that, in our professional judgement, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this matter.

Independent Auditor's Report

Estimation of fair value of investment in TV programmes

Refer to notes 2.9 and 23 to the consolidated financial statements

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|--|
| <p>The Group has an investment in TV programmes. Such investment in TV programmes is measured at fair value of HK\$29,735,683 as at 31 December 2023.</p> <p>Fair value of the investment in TV programmes is estimated by using an income approach, based on the discounted cash flow of the estimated revenues to be generated by the TV programmes.</p> <p>Significant estimation and judgement are required by the management of the Company to determine the fair value of the investment in TV programmes. To support management's estimation of the fair value, the Group engaged an external valuer to perform valuation on the investment in TV programmes as at 31 December 2023.</p> | <p>Our key procedures to address the matter included:</p> <ul style="list-style-type: none"> • Evaluated the objectivity, independence and competency of the external valuer; • Assessed the methodologies and assumptions adopted in the valuation for estimating the fair value of the investment in TV programmes; • Challenged the external valuer's key inputs adopted in the valuation for estimating the fair value of the investment in TV programmes and inspected underlying documents or data to support those key inputs; • Appointed an auditor's expert to review the valuation for estimating the fair value of the investment in TV programmes; and • Confirmed with the representative of the TV programmes producer in relation to their latest business plan, broadcast timetable and expected revenue to be generated by the TV programmes. |

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises the information included in the 2023 annual report of the Company, 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 and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee of the Company assists the directors of the Company in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

As part of an audit in accordance with HKSAs, 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 of the Company.

Independent Auditor's Report

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

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

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

From the matters communicated with the audit committee of the Company, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe this matter 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.

Moore CPA Limited

Certified Public Accountants

Li Wing Yin

Practising Certificate Number: P05035

Hong Kong, 25 March 2024

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

| | <i>Notes</i> | 2023 HK\$ | 2022 HK\$ |
|---|--------------|--------------|--------------|
| Revenue | 6 | 79,104,966 | 58,482,208 |
| Cost of sales | | (51,371,188) | (43,510,435) |
| Gross profit | | 27,733,778 | 14,971,773 |
| Other income | 7 | 1,202,251 | 1,020,970 |
| Other gains/(losses), net | 8 | 1,408,548 | (786,283) |
| Selling and distribution costs | | (2,697,192) | (2,295,072) |
| Administrative expenses | | (21,786,420) | (21,247,053) |
| Impairment loss on other receivables | | (15,389) | (13,877) |
| Change in fair value of investment in TV programmes | 23 | (1,321,585) | 898,877 |
| Finance costs | 9 | (194,276) | (284,865) |
| Profit/(loss) before income tax | 10 | 4,329,715 | (7,735,530) |
| Income tax credit | 11 | 4,707 | – |
| Profit/(loss) for the year | | 4,334,422 | (7,735,530) |
| Other comprehensive loss | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences on translation of financial statements of foreign operations | | (583,120) | (1,054,603) |
| Other comprehensive loss for the year, net of income tax | | (583,120) | (1,054,603) |
| Total comprehensive income/(loss) for the year | | 3,751,302 | (8,790,133) |
| Profit/(loss) for the year attributable to: | | | |
| Owners of the Company | | 4,335,500 | (7,735,405) |
| Non-controlling interests | | (1,078) | (125) |
| | | 4,334,422 | (7,735,530) |
| Total comprehensive income/(loss) for the year attributable to: | | | |
| Owners of the Company | | 3,752,380 | (8,790,008) |
| Non-controlling interests | | (1,078) | (125) |
| | | 3,751,302 | (8,790,133) |
| Earnings/(loss) per share attributable to owners of the Company | 13 | HK cents | HK cents |
| Basic and diluted | | 0.825 | (1.472) |

Consolidated Statement of Financial Position

As at 31 December 2023

| | <i>Notes</i> | 2023 HK\$ | 2022 HK\$ |
|--|--------------|---------------------|--------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 18 | 2,700,493 | 4,065,829 |
| Intangible asset | 19 | 420,000 | 420,000 |
| Right-of-use assets | 20 | 6,681,880 | 4,287,058 |
| Deposits and prepayment | 22 | 962,744 | 1,652,961 |
| Prepayments for acquisition of property, plant and equipment | 22 | 2,041,933 | 275,262 |
| Investment in TV programmes | 23 | 29,735,683 | 31,685,393 |
| | | 42,542,733 | 42,386,503 |
| Current assets | | | |
| Inventories | 21 | 1,036,738 | 3,257,275 |
| Trade and other receivables, deposits and prepayments | 22 | 18,257,977 | 14,437,765 |
| Cash and cash equivalents | 24 | 7,224,481 | 6,236,472 |
| | | 26,519,196 | 23,931,512 |
| Current liabilities | | | |
| Trade and other payables | 25 | 20,479,991 | 22,705,666 |
| Lease liabilities | 26 | 3,231,661 | 3,347,596 |
| Other borrowings | 27 | 987,342 | 1,337,500 |
| | | 24,698,994 | 27,390,762 |
| Net current assets/(liabilities) | | 1,820,202 | (3,459,250) |
| Total assets less current liabilities | | 44,362,935 | 38,927,253 |
| Non-current liabilities | | | |
| Lease liabilities | 26 | 3,595,777 | 1,896,490 |
| Defined benefit plan obligations | 17 | 327,338 | 337,538 |
| Deferred tax liabilities | 28 | – | 4,707 |
| | | 3,923,115 | 2,238,735 |
| Net assets | | 40,439,820 | 36,688,518 |

Consolidated Statement of Financial Position

As at 31 December 2023

| | <i>Notes</i> | 2023 HK\$ | 2022 HK\$ |
|--|--------------|-------------------|-------------------|
| EQUITY | | | |
| Share capital | 29 | 105,069,500 | 105,069,500 |
| Deficit in reserves | 31 | (64,859,197) | (68,611,577) |
| <hr/> | | | |
| Equity attributable to owners of the Company | | 40,210,303 | 36,457,923 |
| Non-controlling interests | | 229,517 | 230,595 |
| <hr/> | | | |
| Total equity | | 40,439,820 | 36,688,518 |

The consolidated financial statements on the pages 32 to 91 were approved and authorised for issue by the Board of Directors on 25 March 2024 and are signed on its behalf by:

Lily Wu
Director

Chang Wei Wen
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

| | Attributable to owners of the Company | | | | | | | | Non-controlling interests HK\$ | Total equity HK\$ | | | |
|---|---------------------------------------|-------------------------------------|---|--|-------------------------|---|-----------------------------|-------------------|-----------------------------------|----------------------|-------------|---------|-------------|
| | Share capital HK\$ (note 29) | Share premium* HK\$ (note 31) | Contributed surplus* HK\$ (note 31) | Share option reserve* HK\$ (note 31) | Other reserves* HK\$ | Translation reserve* HK\$ (note 31) | Accumulated losses* HK\$ | Total HK\$ | | | | | |
| | Balance at 1 January 2022 | 105,069,500 | 363,340,792 | 13,985,669 | 3,339,000 | 7 | 11,597,920 | (452,084,957) | | | 45,247,931 | 230,720 | 45,478,651 |
| | Loss for the year | - | - | - | - | - | - | (7,735,405) | | | (7,735,405) | (125) | (7,735,530) |
| Other comprehensive loss | | | | | | | | | | | | | |
| – Exchange differences on translation of financial statements of foreign operations | - | - | - | - | - | (1,054,603) | - | (1,054,603) | - | (1,054,603) | | | |
| Total comprehensive loss for the year | - | - | - | - | - | (1,054,603) | (7,735,405) | (8,790,008) | (125) | (8,790,133) | | | |
| Balance at 31 December 2022 and 1 January 2023 | 105,069,500 | 363,340,792 | 13,985,669 | 3,339,000 | 7 | 10,543,317 | (459,820,362) | 36,457,923 | 230,595 | 36,688,518 | | | |
| Profit/(loss) for the year | - | - | - | - | - | - | 4,335,500 | 4,335,500 | (1,078) | 4,334,422 | | | |
| Other comprehensive loss | | | | | | | | | | | | | |
| – Exchange differences on translation of financial statements of foreign operations | - | - | - | - | - | (583,120) | - | (583,120) | - | (583,120) | | | |
| Total comprehensive (loss)/income for the year | - | - | - | - | - | (583,120) | 4,335,500 | 3,752,380 | (1,078) | 3,751,302 | | | |
| Lapse of share options (note 30) | - | - | - | (39,930) | - | - | 39,930 | - | - | - | | | |
| Balance at 31 December 2023 | 105,069,500 | 363,340,792 | 13,985,669 | 3,299,070 | 7 | 9,960,197 | (455,444,932) | 40,210,303 | 229,517 | 40,439,820 | | | |

* The total of these accounts as at the reporting date represents deficit in reserves of HK\$64,859,197 (2022: HK\$68,611,577) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

| | <i>Notes</i> | 2023 HK\$ | 2022 HK\$ |
|---|--------------|--------------|--------------|
| Cash flows from operating activities | | | |
| Profit/(loss) before income tax | | 4,329,715 | (7,735,530) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 10 | 1,924,918 | 2,351,847 |
| Depreciation of right-of-use assets | 10 | 3,387,704 | 3,159,579 |
| Finance costs | 9 | 194,276 | 284,865 |
| Interest income | 7 | (7,355) | (5,062) |
| Written-off of property, plant and equipment | 10 | 254,420 | – |
| Impairment loss on other receivables | 10 | 15,389 | 13,877 |
| Reversal of impairment loss on trade receivables | 10 | (473) | (19,554) |
| Change in fair value of investment in TV programmes | 23 | 1,321,585 | (898,877) |
| Net foreign exchange loss arising from translation of investment in TV programmes | 23 | 628,125 | 2,791,915 |
| Gain on early termination of leases | 8 | (704,536) | – |
| Reversal of defined benefit plan obligations | | (10,200) | – |
| Over-provision for unused annual leave | | – | (60,493) |
| Operating cash flows before working capital changes | | 11,333,568 | (117,433) |
| Decrease/(increase) in inventories | | 2,407,491 | (1,227,587) |
| (Increase)/decrease in trade and other receivables, deposits and prepayments | | (3,263,678) | 13,171,777 |
| Decrease in trade and other payables | | (2,762,680) | (7,983,992) |
| Net cash generated from operating activities | | 7,714,701 | 3,842,765 |

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

| | <i>Notes</i> | 2023 HK\$ | 2022 HK\$ |
|--|--------------|------------------|------------------|
| Cash flows from investing activities | | | |
| Interest received | | 7,355 | 5,062 |
| Refund for investment in micro film right (<i>note (i)</i>) | | – | 1,866,000 |
| Prepayment for acquisition of property, plant and equipment | | (2,041,933) | (275,262) |
| Purchase of property, plant and equipment (<i>note (ii)</i>) | | (617,423) | (290,632) |
| Net cash (used in)/generated from investing activities | | (2,652,001) | 1,305,168 |
| Cash flows from financing activities | | | |
| Proceeds from other borrowings | <i>36</i> | 3,724,546 | 1,337,500 |
| Repayments of other borrowings | <i>36</i> | (4,106,826) | – |
| Payment of capital element of lease liabilities | <i>36</i> | (3,499,905) | (3,410,829) |
| Payment of interest element of lease liabilities | <i>36</i> | (194,276) | (284,865) |
| Net cash used in financing activities | | (4,076,461) | (2,358,194) |
| Net increase in cash and cash equivalents | | 986,239 | 2,789,739 |
| Cash and cash equivalents at 1 January | | 6,236,472 | 3,682,844 |
| Effect of foreign exchange rate changes | | 1,770 | (236,111) |
| Cash and cash equivalents at 31 December | | 7,224,481 | 6,236,472 |

Major non-cash transactions:

- (i) During the year ended 31 December 2022, prepayment for investment in micro film right of Renminbi (“RMB”) 5,500,000 (equivalent to HK\$6,006,000 as at the date of refund), included in other receivables as at 31 December 2021, was refunded by Mr. Tsai Chi Yuan (“Mr. Tsai”) on behalf of an independent micro film producer by settling the consultancy fee payable of HK\$1,491,000 to Mr. Tsai and prepaying the consultancy fee of HK\$2,649,000 to an independent third party. The remaining portion of HK\$1,866,000 was deposited directly to the Group.
- (ii) During the year, additions of property, plant and equipment of HK\$275,262 (2022: nil) were prepaid in prior year and the amounts were transferred from prepayments for acquisition of property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

1. GENERAL INFORMATION

Phoenitron Holdings Limited (the “Company”) is a public limited company incorporated in the Cayman Islands and its shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Company is located at Suite 710, 7th Floor, North Tower, World Finance Centre, Harbour City, Tsimshatsui, Kowloon, Hong Kong.

The principal activities of the Company and its subsidiaries (the “Group”) are manufacturing and sales of smart cards, provision of customised smart card application systems, provision of financial and management consultancy services, sales and trading of scrap metals and investment in media and entertainment industry.

The consolidated financial statements for the year ended 31 December 2023 were approved for issue by the Board of Directors on 25 March 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) which collectively 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”) and the accounting principles generally accepted in Hong Kong. The consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

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

The material accounting policies that have been used in the preparation of these consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new and amended HKFRSs and the impacts on the Group’s consolidated financial statements, if any, are disclosed in note 3.

The consolidated financial statements have been prepared on the historical cost basis, except for investment in TV programmes, which is measured at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates and assumptions are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group 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 over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on 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 their 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 the equity attributable to the owners 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 owners of the Company.

2.3 Property, plant and equipment

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

Depreciation on property, plant and equipment is provided to write off the costs less their residual values over their estimated useful lives, using the straight-line method, at the rate of 20% per annum.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.3 Property, plant and equipment (Continued)

The gain or loss arising on retirement or disposal of an asset is determined as the difference between the sales proceeds and the net carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

2.4 Leases

The Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

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

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

The right-of-use asset is adjusted for any remeasurement of lease liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.4 Leases (Continued)

Measurement and recognition of leases as a lessee (Continued)

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less.

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

2.5 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("FVTPL"), plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of profit or loss and other comprehensive income.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within other income and finance costs, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.5 Financial instruments (Continued)

Financial assets (Continued)

Debt investments – Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and other receivables and deposits and cash and cash equivalents, fall into this category of financial instruments.

Debt investments – Financial assets at FVTPL

Financial assets that are held within a different business model other than “hold to collect” or “hold to collect and sell” are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

Financial liabilities

The Group's financial liabilities include trade and other payables, lease liabilities and other borrowings.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or other gains/(losses), net.

Accounting policies of lease liabilities are set out in note 2.4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.5 Financial instruments (Continued)

Financial liabilities (Continued)

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Other borrowings

Other borrowings are recognised initially at fair value, net of transaction costs incurred. Other borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Other borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

2.6 Impairment of financial assets

HKFRS 9's impairment requirements use forward-looking information to recognise expected credit loss ("ECL") – the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and trade receivables recognised and measured under HKFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Trade receivables

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables and deposits and bank balances equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of default occurring since initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.6 Impairment of financial assets (Continued)

Other financial assets measured at amortised cost (Continued)

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

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

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

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Detailed analysis of the ECL assessment of trade receivables, contract assets and other financial assets measured at amortised cost are set out in note 37.2.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.7 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis and, in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. It excludes borrowing costs.

2.8 Revenue recognition

Revenue arises mainly from sales of smart cards and related application systems and sales and trading of scrap metals.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods to its customers.

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.

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

Revenue from contracts with customers

Revenue from sales of smart cards and related application systems for which control of assets is transferred at a point in time is recognised when the goods are delivered to customers. The Group does not provide any sales-related warranties. There is no right of return by customers under the Group's standard contract terms.

Revenue from other source

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.9 Investment in TV programmes

The Group's investment in TV programmes which entitles the Group to share certain percentage of income to be generated from the related TV programmes based on the Group's investment portion as specified in respective TV programmes investment agreement but the Group has no control, significant influence or joint control over the investment. Investment in TV programmes are carried at fair value and recognised as financial asset at FVTPL.

2.10 Impairment of non-financial assets

Intangible asset with indefinite useful life is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Property, plant and equipment, intangible asset, right-of-use assets, prepayment for acquisition of property, plant and equipment, interests in subsidiaries (recognised in the Company's statement of financial position) are subject to impairment testing whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, 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 generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment losses is charged pro rata to the assets in the cash generating unit, except that the carrying amount of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of such impairment is credited to profit or loss in the period in which it arises unless that asset is carried at revalued amount, in which case the reversal of impairment loss is accounted for in accordance with the relevant accounting policy for the revalued amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.11 Employee benefits

Defined benefit plan

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan). Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.11 Employee benefits (Continued)

Defined benefit plan (Continued)

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability or asset.
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by HKAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related service is rendered/reduces service cost by attributing contributions to the employees' periods of service in accordance with HKAS 19 paragraph 70.

For long service payment ("LSP") obligation, the Group accounts for the employer Mandatory Provident Fund ("MPF") contributions expected to be offset as a deemed employee contribution towards the LSP obligation in terms of HKAS 19.93(a) and it is measure on a net basis. The estimated amount of future benefit is determined after deducting the negative service cost arising from the accrued benefits derived from the Group's MPF contributions that have been vested with employees, which are deemed to be contributions from the relevant employees.

As at 31 December 2022, the Group had a provision for defined benefit plan obligations of HK\$337,538 that will not expire within twelve months from the end of the reporting period and such amount was included in trade and other payables under current liabilities. Such amount was reclassified to non-current liabilities to conform with the current year's presentation.

Defined contribution plan

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

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") and Taiwan are required to participate in various defined contribution plans operated by the relevant authorities. These subsidiaries are required to contribute specified percentage of its payroll costs in accordance with the local practice and regulations.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

There were no forfeited contributions utilised by the Group to reduce existing level of contributions for each of the years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

2. MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

2.11 Employee benefits (Continued)

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3. ADOPTION OF NEW AND AMENDED HKFRSS

(a) New and amended HKFRSS

In the preparation of the consolidated financial statements for the year ended 31 December 2023, the Group has applied the following new and amendments to HKFRSSs, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2023:

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. ADOPTION OF NEW AND AMENDED HKFRSS (Continued)

(a) New and amended HKFRSSs (Continued)

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

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

In accordance with the guidance set out in the amendments, accounting policy information that is standardised information, or information that only duplicates or summarises the requirements of the HKFRSSs, is considered immaterial accounting policy information and is no longer disclosed in the notes to the consolidated financial statements so as not to obscure the material accounting policy information disclosed in the notes to the consolidated financial statements.

(b) Amendments to HKFRSSs not yet adopted

The Group has not applied the following amendments to HKFRSSs, which have been issued but are not yet effective, in these consolidated financial statements.

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Provision for impairment of trade and other receivables and deposits within the scope of ECL under HKFRS 9

The Group makes allowances on items subjects to ECL (including trade and other receivables and deposits) based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period as set out in note 2.6. As at 31 December 2023, the carrying amounts of (i) trade receivables amounted to HK\$13,155,916 without any ECL allowance (2022: HK\$9,665,873 (net of ECL allowance of HK\$473)) and (ii) other receivables and deposits (excluding prepayments) amounted to HK\$4,663,991 (net of ECL allowance of HK\$626,851) (2022: HK\$3,807,968 (net of ECL allowance of HK\$611,462)).

Estimation of fair value of investment in TV programmes

As at 31 December 2023, the Group's investment in TV programmes is stated at fair value of HK\$29,735,683 (2022: HK\$31,685,393) based on the valuation performed by an independent qualified professional valuer. It is measured at fair value and determined based on unobserved inputs using valuation techniques as set out in note 23. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair value.

4.2 Critical accounting judgements

Determination of the lease term in lease contracts and discount rate

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Factors considered include:

- contractual terms and conditions for the optional periods compared with market rates (e.g. whether the amount of payments in the optional periods is below the market rates);
- the extent of leasehold improvements undertaken by the Group; and
- costs relating to termination of the lease (e.g. relocation costs, costs of identifying another underlying asset suitable for the Group's needs).

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated), which in turn affect the carrying amounts of lease liabilities and corresponding right-of-use assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.2 Critical accounting judgements (Continued)

Determination of the lease term in lease contracts and discount rate (Continued)

During the years ended 31 December 2023 and 2022, all extension options in leases of properties have not been included in the lease liabilities because the Group could replace the assets without significant cost or business disruption.

In determining the discount rate, the Group is required to determine by reference to the rate inherent in the lease unless this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. The Group exercises considerable judgement in relation to determining the incremental borrowing rate taking into account the nature of the underlying assets and the terms and conditions of the leases, at both the commencement date and effective date of the modification. The weighted average incremental borrowing rates applied to the lease liabilities range from 2.7% to 4.8% (2022: 2.1% to 4.9%) per annum.

5. SEGMENT INFORMATION

The operating segments are reported in a manner consistent with the way in which information is reported internally to the chief operating decision markers (i.e. executive directors of the Company) for the purposes of resources allocation and assessment of segment performance. The business components in the internal reporting to the executive directors of the Company, the chief operating decision makers, are determined following the Group's major product and service lines. The Group is currently organised into the following five operating segments:

- Sales of smart cards;
- Sales of smart card application systems;
- Financial and management consultancy services;
- Sales and trading of scrap metals; and
- Media and entertainment.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches.

Revenue and expenses are allocated to the reportable segments with reference to sales generated and the expenses incurred by those segments. The measurement of segment profit/(loss) before income tax is the same as those used in preparing these consolidated financial statements under HKFRSs except that finance costs, impairment loss on other receivables, exchange gains/(losses), net and corporate expenses, net not directly attributable to business activities of the operating segments are not included in arriving at the operating results of the operating segments.

Segment assets include all assets with the exception of intangible asset, assets which are not attributable to the business activities of the operating segments and other assets which are managed on a group basis such as cash and cash equivalents.

Segment liabilities include all liabilities except for deferred tax liabilities, liabilities which are not attributable to the business activities of the operating segments and other liabilities which are managed on a group basis such as other borrowings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. SEGMENT INFORMATION (Continued)

Segment revenue, segment results, segment assets and segment liabilities

Information regarding the Group's reportable segments including the reconciliation to revenue, profit/(loss) before income tax, total assets, total liabilities and other segment information are as follows:

2023

| | Sales of smart cards HK\$ | Sales of smart card application systems HK\$ | Financial and management consultancy services HK\$ | Sales and trading of scrap metals HK\$ | Media and entertainment HK\$ | Unallocated HK\$ | Consolidated HK\$ |
|---|---------------------------------|--|--|---|------------------------------------|---------------------|----------------------|
| Reportable segment revenue | 79,098,836 | 6,130 | - | - | - | - | 79,104,966 |
| Reportable segment profit/(loss) | 14,251,720 | (13,734) | - | (3,058,576) | (1,324,040) | - | 9,855,370 |
| Finance costs | | | | | | | (194,276) |
| Impairment loss on other receivables | | | | | | | (15,389) |
| Exchange gains, net | | | | | | | 704,012 |
| Corporate expenses, net | | | | | | | (6,020,002) |
| Profit before income tax | | | | | | | 4,329,715 |
| Reportable segment assets | 28,000,219 | - | - | 440,918 | 29,735,683 | 3,240,628 | 61,417,448 |
| Intangible asset | | | | | | | 420,000 |
| Cash and cash equivalents | | | | | | | 7,224,481 |
| Total consolidated assets | | | | | | | 69,061,929 |
| Reportable segment liabilities | 19,708,887 | 12,000 | - | 636,225 | - | 7,277,655 | 27,634,767 |
| Other borrowings | | | | | | | 987,342 |
| Total consolidated liabilities | | | | | | | 28,622,109 |
| Other information | | | | | | | |
| Depreciation of property, plant and equipment | 1,849,796 | - | - | 72,644 | - | 2,478 | 1,924,918 |
| Depreciation of right-of-use assets | 2,486,348 | - | - | - | - | 901,356 | 3,387,704 |
| Interest income | 5,103 | 21 | - | 1,824 | - | 407 | 7,355 |
| Additions to non-current segment assets during the year | 6,933,211 | - | - | 375,241 | - | 2,515,708 | 9,824,160 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. SEGMENT INFORMATION (Continued)

Segment revenue, segment results, segment assets and segment liabilities (Continued)

2022

| | Sales of smart cards HK\$ | Sales of smart card application systems HK\$ | Financial and management consultancy services HK\$ | Sales and trading of scrap metals HK\$ | Media and entertainment HK\$ | Unallocated HK\$ | Consolidated HK\$ |
|---|---------------------------------|--|--|---|------------------------------------|---------------------|----------------------|
| Reportable segment revenue | 58,471,358 | 10,850 | – | – | – | – | 58,482,208 |
| Reportable segment profit/(loss) | 1,461,634 | (10,931) | – | (3,178,734) | 898,327 | – | (829,704) |
| Finance costs | | | | | | | (284,865) |
| Impairment loss on other receivables | | | | | | | (13,877) |
| Exchange losses, net | | | | | | | (786,283) |
| Corporate expenses, net | | | | | | | (5,820,801) |
| Loss before income tax | | | | | | | (7,735,530) |
| Reportable segment assets | 26,152,179 | – | – | 402,034 | 31,685,393 | 1,421,937 | 59,661,543 |
| Intangible asset | | | | | | | 420,000 |
| Cash and cash equivalents | | | | | | | 6,236,472 |
| Total consolidated assets | | | | | | | 66,318,015 |
| Reportable segment liabilities | 25,065,753 | 12,000 | – | 226,360 | – | 2,983,177 | 28,287,290 |
| Other borrowings | | | | | | | 1,337,500 |
| Deferred tax liabilities | | | | | | | 4,707 |
| Total consolidated liabilities | | | | | | | 29,629,497 |
| Other information | | | | | | | |
| Depreciation of property, plant and equipment | 2,343,702 | – | – | – | – | 8,145 | 2,351,847 |
| Depreciation of right-of-use assets | 2,258,223 | – | – | – | – | 901,356 | 3,159,579 |
| Interest income | 4,425 | 5 | – | 616 | – | 16 | 5,062 |
| Additions to non-current segment assets during the year | 1,555,354 | – | – | 275,262 | – | – | 1,830,616 |

There has been no inter-segment sales between different business segments during the years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. SEGMENT INFORMATION (continued)

Geographical information

The following table presents the revenue from external customers for the reporting period and the specified non-current assets by geographical locations as at the reporting date.

| | Revenue from external customers | | Specified non-current assets | |
|---|---------------------------------|------------|------------------------------|-----------|
| | 2023 | 2022 | 2023 | 2022 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| The PRC | 8,403,153 | 4,528,113 | 7,626,527 | 6,627,425 |
| Europe | 52,698,839 | 30,145,558 | – | – |
| Africa | 17,857,867 | 23,679,501 | – | – |
| Asia, excluding the PRC, Hong Kong and Taiwan | 23,514 | 26,834 | – | – |
| Hong Kong | 121,593 | 102,202 | 3,911,425 | 2,145,462 |
| Taiwan | – | – | 306,354 | 1,075,262 |
| | 79,104,966 | 58,482,208 | 11,844,306 | 9,848,149 |

The Company is an investment holding company incorporated in the Cayman Islands where the Company does not have activities. Since the major operations of the Group are conducted in the PRC, which is considered as the Group's country of domicile for the disclosure purpose of HKFRS 8 *Operating Segments*.

Specified non-current assets include property, plant and equipment, intangible asset, right-of-use assets, prepayment and prepayments for acquisition of property, plant and equipment only.

The geographical location of customers is based on the principal place of business of the customers. The geographical location of the specified non-current assets is based on the location of assets.

Information about major customers

Revenue from each of the major customers during the reporting period is as follows:

| | 2023 | 2022 |
|-----------------------------------|------------|------------|
| | HK\$ | HK\$ |
| Customer A – Sales of smart cards | 29,448,310 | 29,780,372 |
| Customer B – Sales of smart cards | 22,920,350 | –* |
| Customer C – Sales of smart cards | 17,857,867 | 23,297,301 |

* This customer did not contribute any revenue of the Group during the year ended 31 December 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

6. REVENUE

The Group's principal activities are disclosed in note 1. The Group's revenue for goods transferred at a point in time from external customers is as follows:

| | 2023 HK\$ | 2022 HK\$ |
|---|-------------------|-------------------|
| By product lines | | |
| Sales of smart cards | 79,098,836 | 58,471,358 |
| Sales of smart card application systems | 6,130 | 10,850 |
| | 79,104,966 | 58,482,208 |

| | 2023 | |
|---|---------------------------------|---|
| | Sales of smart cards HK\$ | Sales of smart card application systems HK\$ |
| Geographical markets | | |
| The PRC | 8,403,153 | – |
| Europe | 52,698,839 | – |
| Africa | 17,857,867 | – |
| Asia, excluding the PRC, Hong Kong and Taiwan | 23,514 | – |
| Hong Kong | 115,463 | 6,130 |
| Total | 79,098,836 | 6,130 |

| | 2022 | |
|---|---------------------------------|---|
| | Sales of smart cards HK\$ | Sales of smart card application systems HK\$ |
| Geographical markets | | |
| The PRC | 4,528,113 | – |
| Europe | 30,145,558 | – |
| Africa | 23,679,501 | – |
| Asia, excluding the PRC, Hong Kong and Taiwan | 26,834 | – |
| Hong Kong | 91,352 | 10,850 |
| Total | 58,471,358 | 10,850 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

7. OTHER INCOME

| | 2023 HK\$ | 2022 HK\$ |
|--------------------------------------|------------------|--------------|
| Bank interest income | 7,355 | 5,062 |
| Government subsidies (<i>note</i>) | 639,080 | 423,704 |
| Sundry income | 555,816 | 592,204 |
| | 1,202,251 | 1,020,970 |

Note:

The government subsidies recognised for the year ended 31 December 2023 were the approved subsidies from the PRC government mainly due to the technology upgrade in the PRC factory (2022: approved subsidies from the COVID-19 Anti-epidemic Fund under the Employment Support Scheme as promulgated by the Government of the Hong Kong Special Administrative Region of the PRC (the "Government") and other approved subsidies from the PRC government). There are no unfulfilled conditions or other contingencies attached to these subsidies.

8. OTHER GAINS/(LOSSES), NET

| | 2023 HK\$ | 2022 HK\$ |
|---|------------------|--------------|
| Exchange gains/(losses), net | 704,012 | (786,283) |
| Gain on early termination of leases initiated by landlord | 704,536 | – |
| | 1,408,548 | (786,283) |

9. FINANCE COSTS

| | 2023 HK\$ | 2022 HK\$ |
|--------------------------------------|--------------|--------------|
| Finance charges on lease liabilities | 194,276 | 284,865 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

10. PROFIT/(LOSS) BEFORE INCOME TAX

| | 2023 HK\$ | 2022 HK\$ |
|---|--------------|--------------|
| Profit/(loss) before income tax is arrived at after charging/(crediting): | | |
| Auditor's remuneration | 730,000 | 700,000 |
| Short-term leases | 266,651 | 286,060 |
| Variable lease payments not included in the measurement of lease liabilities (<i>note 26</i>) | 1,630,526 | 1,734,596 |
| Costs of inventories recognised as an expense (<i>note</i>) | 51,371,188 | 43,510,435 |
| Reversal of impairment loss on trade receivables (<i>note 37.2(i)</i>) | (473) | (19,554) |
| Impairment loss on other receivables (<i>note 37.2(ii)</i>) | 15,389 | 13,877 |
| Written-off of property, plant and equipment (<i>note 18</i>) | 254,420 | – |
| Depreciation | | |
| – Property, plant and equipment (<i>note 18</i>) | 1,924,918 | 2,351,847 |
| – Right-of-use assets (<i>note 20</i>) | 3,387,704 | 3,159,579 |
| Employee benefit expenses (<i>note 14</i>) | 25,795,371 | 22,592,039 |

Note:

Cost of inventories recognised as expense includes HK\$20,310,038 (2022: HK\$16,941,384) relating to depreciation of property, plant and equipment, depreciation of right-of-use assets, employee benefit expenses and lease charges, which amounts are also included in the respective total amounts disclosed above and in note 14 for these expenses.

11. INCOME TAX CREDIT

| | 2023 HK\$ | 2022 HK\$ |
|---------------------------------|--------------|--------------|
| Deferred tax (<i>note 28</i>) | (4,707) | – |
| Total income tax credit | (4,707) | – |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

11. INCOME TAX CREDIT (Continued)

Reconciliation between income tax credit and profit/(loss) before income tax at applicable tax rates is as follows:

| | 2023 HK\$ | 2022 HK\$ |
|--|--------------|--------------|
| Profit/(loss) before income tax | 4,329,715 | (7,735,530) |
| Income tax at Hong Kong Profits Tax rate of 16.5% (2022: 16.5%) | 714,403 | (1,276,362) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 1,161,243 | (375,443) |
| Tax effect of non-deductible expenses | 779,145 | 872,585 |
| Tax effect of non-taxable income | (15,206) | (229,396) |
| Tax effect of tax losses not recognised | 858,644 | 1,575,316 |
| Utilisation of tax losses previously not recognised | (3,500,048) | (564,846) |
| Tax effect of other temporary differences not recognised | (2,888) | (1,854) |
| Income tax credit | (4,707) | – |

Notes:

(a) **Hong Kong**

Under the two-tiered profits tax rates regime in Hong Kong, the first HK\$2,000,000 of profits of qualifying group entity will be taxed at 8.25%, and the profits above HK\$2,000,000 will be taxed at 16.5%. The profits of entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. No Hong Kong Profits Tax has been provided for the year ended 31 December 2023, as the Group did not generate any assessable profits in Hong Kong during the year ended 31 December 2023 (2022: the Group has sufficient tax losses brought forward to set off against assessable profits in Hong Kong).

(b) **PRC**

The PRC Enterprise Income Tax has been calculated at 25% (2022: 25%) on the estimated assessable profits for the year based on the existing legislation, interpretations and practices in respect thereof. No PRC Enterprise Income Tax has been provided for the year ended 31 December 2023, as the Group has sufficient tax losses brought forward to set off against assessable profits in the PRC during the year ended 31 December 2023 (2022: the Group did not generate any assessable profits in the PRC).

(c) **Other jurisdictions**

Pursuant to the rules and regulations of the Cayman Islands, the British Virgin Islands (the "BVI") and Taiwan, the Group is not subject to any income tax or did not generate any assessable profits in the Cayman Islands, the BVI and Taiwan (2022: nil).

12. DIVIDENDS

The Board of Directors does not recommend the payment of any dividend in respect of the year ended 31 December 2023 (2022: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of basic earnings/(loss) per share are based on the profit/(loss) for the year attributable to owners of the Company and the weighted average number of respective ordinary shares in issue of 525,347,500 (2022: 525,347,500) during the year.

The calculations of diluted earnings/(loss) per share are based on the respective adjusted profit/(loss) for the years attributable to owners of the Company and the adjusted weighted average number of ordinary shares outstanding, both of which are adjusted to assume exercise or conversion of all dilutive potential ordinary shares.

As at 31 December 2023 and 2022, the Company has outstanding share options. For the outstanding share options, the number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings/(loss) per share.

As the Company's outstanding share options had an anti-dilutive effect to the basic loss per share calculation for the year ended 31 December 2022 and the exercise price of the share option is higher than the average market price per share for the year ended 31 December 2023, the exercise of the above potential ordinary shares is not assumed in the computation of diluted earnings/(loss) per share. Therefore, the diluted earnings/(loss) per share attributable to owners of the Company for the years ended 31 December 2023 and 2022 are the same as the basic earnings/(loss) per share, respectively.

14. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' REMUNERATION)

| | 2023 HK\$ | 2022 HK\$ |
|--|-------------------|--------------|
| Salaries, wages and other benefits | 24,857,373 | 21,873,894 |
| Contributions to defined contribution retirement plans | 937,998 | 718,145 |
| | 25,795,371 | 22,592,039 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

15. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration for the years ended 31 December 2023 and 2022 are as follows:

For the year ended 31 December 2023

| | Fee HK\$ | Salaries, allowances and benefits in kind HK\$ | Discretionary bonus HK\$ | Contributions to defined contribution retirement plans HK\$ | Total HK\$ |
|---|-------------|--|--------------------------------|--|---------------|
| <i>Executive directors:</i> | | | | | |
| Ms. Lily Wu (<i>note (i)</i>) | – | 340,798 | – | 16,931 | 357,729 |
| Mr. Chang Wei Wen | – | 945,814 | 100,000 | 44,669 | 1,090,483 |
| Mr. Yang Meng Hsiu | – | 285,814 | – | 23,669 | 309,483 |
| | – | 1,572,426 | 100,000 | 85,269 | 1,757,695 |
| <i>Independent non-executive directors:</i> | | | | | |
| Mr. Chan Siu Wing, Raymond | 168,000 | – | – | – | 168,000 |
| Ms. Wong Ka Wai, Jeanne | 168,000 | – | – | – | 168,000 |
| Mr. Yeung Man Chit, Daniel (<i>note (ii)</i>) | 168,000 | – | – | – | 168,000 |
| | 504,000 | – | – | – | 504,000 |
| | 504,000 | 1,572,426 | 100,000 | 85,269 | 2,261,695 |

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For the year ended 31 December 2023

15. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

For the year ended 31 December 2022

| | Fee HK\$ | Salaries, allowances and benefits in kind HK\$ | Discretionary bonus HK\$ | Contributions to defined contribution retirement plans HK\$ | Total HK\$ |
|---|-------------|--|--------------------------------|--|---------------|
| <i>Executive directors:</i> | | | | | |
| Ms. Lily Wu (<i>note (i)</i>) | – | 338,613 | – | 16,931 | 355,544 |
| Mr. Chang Wei Wen | – | 953,516 | 74,000 | 45,360 | 1,072,876 |
| Mr. Yang Meng Hsiu | – | 293,516 | – | 24,360 | 317,876 |
| | – | 1,585,645 | 74,000 | 86,651 | 1,746,296 |
| <i>Independent non-executive directors:</i> | | | | | |
| Mr. Chan Siu Wing, Raymond | 168,000 | – | – | – | 168,000 |
| Mr. Leung Ka Kui, Johnny (<i>note (ii)</i>) | 168,000 | – | – | – | 168,000 |
| Ms. Wong Ka Wai, Jeanne | 168,000 | – | – | – | 168,000 |
| Mr. Yeung Man Chit, Daniel (<i>note (ii)</i>) | 7,677 | – | – | – | 7,677 |
| | 511,677 | – | – | – | 511,677 |
| | 511,677 | 1,585,645 | 74,000 | 86,651 | 2,257,973 |

Notes:

- (i) Ms. Lily Wu is also the chief executive officer of the Company and her emoluments disclosed above include those for services rendered by her as the chief executive officer for the years ended 31 December 2023 and 2022.
- (ii) Mr. Leung Ka Kui, Johnny resigned as independent non-executive director of the Company with effect from 15 December 2022. On the same day, Mr. Yeung Man Chit, Daniel was appointed as independent non-executive director of the Company.

Salaries, allowances and benefits in kind, discretionary bonus and contributions to defined contribution retirement plans paid to or for the executive directors of the Company are generally emoluments paid or payable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

The independent non-executive directors' emoluments show above were for their services as directors of the Company.

During the years ended 31 December 2023 and 2022, no remuneration has been paid by the Group to the directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office. There were no directors of the Company have waived any remuneration during the years ended 31 December 2023 and 2022.

During the year, no share options were granted to the directors or chief executive officer of the Company in respect of their services to the Group (2022: nil).

Notes to the Consolidated Financial Statements

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16. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals include one (2022: one) director of the Company whose remuneration is disclosed in note 15. The aggregate emoluments of the remaining four (2022: four) highest paid individuals are as follows:

| | 2023 HK\$ | 2022 HK\$ |
|--|------------------|------------------|
| Salaries and allowances | 2,406,925 | 2,388,488 |
| Discretionary bonus | 144,800 | 204,500 |
| Contributions to defined contribution retirement plans | 137,219 | 75,198 |
| | 2,688,944 | 2,668,186 |

The emoluments fell within the following band:

| | Number of individuals | |
|---------------------|-----------------------|------|
| | 2023 | 2022 |
| Emolument band | | |
| Nil – HK\$1,000,000 | 4 | 4 |

During the years ended 31 December 2023 and 2022, no remuneration has been paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

17. RETIREMENT SCHEMES

Defined contribution retirement plans

Under the Mandatory Provident Fund Schemes Ordinance regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, the Group participates in a MPF Scheme operated by an approved trustee in Hong Kong and makes contributions for its eligible employees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income. The cap of monthly relevant income is HK\$30,000 (2022: HK\$30,000) during the year. Contributions to the scheme vest immediately.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme being operated by the local PRC government. The subsidiaries are required to contribute a specified percentage of the average basic salary 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.

Pursuant to the labour regulations of Taiwan, the Group joined defined contribution retirement plans for its employees. The Group is required to make contributions to the retirement plans at the applicable rates of 6% (2022: 6%) based on the eligible employees' salaries.

During the year ended 31 December 2023, the aggregate amount of employer's contribution made by the Group is HK\$937,998 (2022: HK\$718,145).

Notes to the Consolidated Financial Statements

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17. RETIREMENT SCHEMES (Continued)

Defined benefit retirement plans and LSP obligations

Hong Kong employees that have been employed continuously for at least five years are entitled to long service payments in accordance with the Hong Kong Employment Ordinance under certain circumstances. These circumstances include where an employee is dismissed for reasons other than serious misconduct or redundancy, that employee resigns at the age of 65 or above, or the employment contract is of fixed term and expires without renewal. The amount of LSP payable is determined with reference to the employee's final salary (capped at HK\$22,500) and the years of service, with an overall cap of HK\$390,000 per employee, reduced by the amount of any accrued benefits derived from the Group's contributions to MPF Scheme. Currently, the Group does not have any separate funding arrangement in place to meet its LSP obligation.

In June 2022, the Government gazetted the Amendment Ordinance, which will eventually abolish the statutory right of an employer to reduce its LSP payable to a Hong Kong employee by drawing on its mandatory contributions to the MPF Scheme. The Government has subsequently announced that the Amendment Ordinance will come into effect from 1 May 2025 (the "Transition Date"). Separately, the Government is also expected to introduce a subsidy scheme to assist employers after the abolition.

Among other things, once the abolition of the offsetting mechanism takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory MPF contributions (irrespective of the contributions made before, on or after the Transition Date) to reduce the LSP in respect of an employee's service from the Transition Date. However, where an employee's employment commenced before the Transition Date, the employer can continue to use the above accrued benefits to reduce the LSP in respect of the employee's service up to that date; in addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

The Group has determined that the Amendment Ordinance cause immaterial impacts to the Group's LSP obligation with respect to Hong Kong employees. In the opinion of the directors of the Company, there is no significant actuarial assumption for determination of the LSP obligation.

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For the year ended 31 December 2023

18. PROPERTY, PLANT AND EQUIPMENT

| | Printing and testing equipment HK\$ | Office equipment HK\$ | Furniture and fixtures HK\$ | Leasehold improvement HK\$ | Motor vehicles HK\$ | Total HK\$ |
|---|--|-----------------------------|--------------------------------------|----------------------------------|---------------------------|---------------------|
| At 1 January 2022 | | | | | | |
| Cost | 26,025,050 | 1,284,338 | 1,720,219 | 3,111,066 | 1,239,745 | 33,380,418 |
| Accumulated depreciation | (19,868,826) | (1,206,410) | (1,591,497) | (2,844,204) | (1,239,745) | (26,750,682) |
| Net carrying amount | 6,156,224 | 77,928 | 128,722 | 266,862 | – | 6,629,736 |
| Year ended 31 December 2022 | | | | | | |
| Opening net carrying amount | 6,156,224 | 77,928 | 128,722 | 266,862 | – | 6,629,736 |
| Additions | 209,511 | 11,508 | – | 69,613 | – | 290,632 |
| Depreciation | (2,051,398) | (31,506) | (4,593) | (264,350) | – | (2,351,847) |
| Exchange realignment | (493,825) | (4,768) | 10 | (4,109) | – | (502,692) |
| Closing net carrying amount | 3,820,512 | 53,162 | 124,139 | 68,016 | – | 4,065,829 |
| At 31 December 2022 and 1 January 2023 | | | | | | |
| Cost | 24,059,365 | 1,253,222 | 1,673,820 | 2,973,245 | 1,180,384 | 31,140,036 |
| Accumulated depreciation | (20,238,853) | (1,200,060) | (1,549,681) | (2,905,229) | (1,180,384) | (27,074,207) |
| Net carrying amount | 3,820,512 | 53,162 | 124,139 | 68,016 | – | 4,065,829 |
| Year ended 31 December 2023 | | | | | | |
| Opening net carrying amount | 3,820,512 | 53,162 | 124,139 | 68,016 | – | 4,065,829 |
| Additions | 419,767 | 106,688 | 4,640 | 361,590 | – | 892,685 |
| Depreciation | (1,798,392) | (42,267) | (683) | (83,576) | – | (1,924,918) |
| Written-off | (201,819) | – | – | (52,601) | – | (254,420) |
| Exchange realignment | (78,131) | (3,095) | (64) | 2,607 | – | (78,683) |
| Closing net carrying amount | 2,161,937 | 114,488 | 128,032 | 296,036 | – | 2,700,493 |
| At 31 December 2023 | | | | | | |
| Cost | 21,207,561 | 1,259,431 | 1,567,460 | 963,471 | 1,167,408 | 26,165,331 |
| Accumulated depreciation | (19,045,624) | (1,144,943) | (1,439,428) | (667,435) | (1,167,408) | (23,464,838) |
| Net carrying amount | 2,161,937 | 114,488 | 128,032 | 296,036 | – | 2,700,493 |

Notes to the Consolidated Financial Statements

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18. PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year ended 31 December 2023, the leased factory and office in the PRC was early terminated and the Group moved to a new factory in the PRC by entering into a new lease agreement. Certain printing and testing equipment and leasehold improvement with net carrying amount of HK\$201,819 (2022: nil) and HK\$52,601 (2022: nil) respectively were written-off due to reallocation of factory.

As at 31 December 2023, certain items of property, plant and equipment were fully depreciated but are still in use, the gross carrying amounts before deducting accumulated depreciation of those assets amounted to HK\$12,559,707 (2022: HK\$16,735,628).

19. INTANGIBLE ASSET

| | PRC driving licence HK\$ |
|---|--------------------------------|
| At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023 | |
| Cost and net carrying amount | 420,000 |

The intangible asset represents the acquisition cost of a driving licence in the PRC. The PRC driving licence is considered to have an indefinite economic life as there is no foreseeable limit on the period of time over which the driving licence is expected to generate economic benefit to the Group and the licence is renewable at minimal cost. Accordingly, it is not amortised.

20. RIGHT-OF-USE ASSETS

| | HK\$ |
|--|--------------------|
| Net carrying amount at 1 January 2022 | 7,285,834 |
| Additions | 464,722 |
| Depreciation | (3,159,579) |
| Exchange realignment | (303,919) |
| Net carrying amount at 31 December 2022 and 1 January 2023 | 4,287,058 |
| Additions | 6,889,542 |
| Depreciation | (3,387,704) |
| Early termination of lease agreements | (1,128,939) |
| Exchange realignment | 21,923 |
| Net carrying amount at 31 December 2023 | 6,681,880 |

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20. RIGHT-OF-USE ASSETS (Continued)

The Group leases a factory, certain offices, warehouse and staff quarter. Rental contracts are typically made for fixed periods of 2 to 3 years (2022: 2 to 8 years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

| | Net carrying amount at 31 December | | Depreciation for the year ended 31 December | |
|---------------|---------------------------------------|------------------|--|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| Factory | 2,449,891 | 1,842,953 | 1,218,784 | 1,045,908 |
| Offices | 2,590,838 | 1,707,177 | 1,295,390 | 1,316,036 |
| Warehouse | 201,483 | 174,397 | 202,510 | 190,248 |
| Staff quarter | 1,439,668 | 562,531 | 671,020 | 607,387 |
| Total | 6,681,880 | 4,287,058 | 3,387,704 | 3,159,579 |

The details in relation to these leases are set out in note 26.

21. INVENTORIES

| | 2023 | 2022 |
|------------------|------------------|------------------|
| | HK\$ | HK\$ |
| Raw materials | 308,992 | 374,185 |
| Work-in-progress | 337,909 | 2,883,090 |
| Finished goods | 389,837 | – |
| Total | 1,036,738 | 3,257,275 |

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22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2023 HK\$ | 2022 HK\$ |
|--|--------------|--------------|
| Trade receivables | 13,155,916 | 9,666,346 |
| Less: ECL allowance (<i>note 37.2(i)</i>) | – | (473) |
| Trade receivables, net (<i>note (a)</i>) | 13,155,916 | 9,665,873 |
| Other receivables, deposits and prepayments | 8,733,589 | 7,311,577 |
| Less: ECL allowance (<i>note 37.2(ii)</i>) | (626,851) | (611,462) |
| Other receivables, deposits and prepayments, net (<i>note (b)</i>) | 8,106,738 | 6,700,115 |
| Total trade and other receivables, deposits and prepayments | 21,262,654 | 16,365,988 |
| Less: Non-current deposits and prepayment | (962,744) | (1,652,961) |
| Less: Non-current prepayments for acquisition of property, plant and equipment (<i>note (c)</i>) | (2,041,933) | (275,262) |
| Current trade and other receivables, deposits and prepayments | 18,257,977 | 14,437,765 |

Notes:

- (a) The credit term granted by the Group to its trade customers normally ranges from 30 days to 90 days (2022: 30 days to 90 days). Based on the invoice dates, the ageing analysis of the Group's trade receivables (net of ECL allowance) is as follows:

| | 2023 HK\$ | 2022 HK\$ |
|---------------------|--------------|--------------|
| 0 – 30 days | 4,515,265 | 2,639,540 |
| 31 – 90 days | 7,406,361 | 6,363,602 |
| Over 90 days | 1,234,290 | 663,204 |
| Less: ECL allowance | – | (473) |
| | 13,155,916 | 9,665,873 |

- (b) Included in the Group's other receivables, deposits and prepayments, net of ECL allowance are mainly other tax recoverable of HK\$2,640,579 (2022: HK\$2,745,609), rental and utilities deposits of HK\$1,571,873 (2022: HK\$1,017,851) and prepayment of consultancy fee of HK\$800,000 (2022: HK\$2,000,000), respectively.

- (c) The balance represents the prepayment paid to the suppliers for acquisition of property, plant and equipment for the Group's operation.

Notes to the Consolidated Financial Statements

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23. INVESTMENT IN TV PROGRAMMES

| | HK\$ |
|---|--------------------|
| Balance at 1 January 2022 | 33,578,431 |
| Total gains/(losses) included in profit or loss: | |
| Fair value change | 898,877 |
| Exchange difference arising from translation, included in other gains/(losses), net | (2,791,915) |
| Balance at 31 December 2022 and 1 January 2023 | 31,685,393 |
| Total losses included in profit or loss: | |
| Fair value change | (1,321,585) |
| Exchange difference arising from translation, included in other gains/(losses), net | (628,125) |
| Balance at 31 December 2023 | 29,735,683 |

During the year ended 31 December 2019, the Group entered into a joint production agreement and supplemental agreement (collectively, the "Joint Production Agreement") with 浙江優盛影視文化有限公司 (Zhe Jiang You Sheng Ying Shi Wen Hua Company Limited*) ("Zhe Jiang You Sheng"), an independent TV programmes producer, pursuant to which the Group agreed to invest RMB24,000,000 (equivalent to HK\$26,850,000) in the production of TV programmes "Snow Leopard II", representing 30% of the budgeted production costs. In accordance with the Joint Production Agreement, the Group has no control, significant influence or joint control over the investment.

Pursuant to the Joint Production Agreement, if the actual production costs exceed the budgeted production costs, Zhe Jiang You Sheng would bear all addition costs. The Group is not liable and does not bear any additional costs and the interests in the investment in TV programmes would still be maintained at 30%.

The Group is entitled to 30% of net profit generated by the TV programmes for five years, after obtained broadcasting approval from the PRC government authority.

During the year ended 31 December 2022, due to the unstable environment under the COVID-19 pandemic in the PRC, the TV programmes could not be produced as planned in prior years. As at 31 December 2022, with reference to the production progress provided by Zhe Jiang You Sheng, the directors of the Company further revisited the production timetable with Zhe Jiang You Sheng and tentatively expected the TV programmes to be released in the PRC and the net profit distribution to be received during the year ending 31 December 2024. Therefore, the investment in TV programmes was classified as non-current assets as at 31 December 2022.

During the year ended 31 December 2023, the production of the TV programmes was completed. The management of Zhe Jiang You Sheng has decided to defer the broadcasting timetable due to the poor economic environment in the PRC. As at 31 December 2023, with reference to the broadcast progress provided by Zhe Jiang You Sheng, the directors of the Company further revisited the broadcasting timetable with Zhe Jiang You Sheng and tentatively expected the TV programmes to be released in the PRC and the net profit distribution to be received during the year ending 31 December 2025. Therefore, the investment in TV programmes was remained classified as non-current assets as at 31 December 2023.

* The English translation of the Chinese name is for information purpose only, and should not be regarded as the official English translation of such name.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

23. INVESTMENT IN TV PROGRAMMES (Continued)

The Group's investment in TV programmes is measured at fair value in the consolidated statement of financial position on a recurring basis, categorised into three levels of a fair value hierarchy. The levels are based on the observability of significant inputs to the measurements, as follows:

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

The level in the fair value hierarchy within which the investment in TV programmes is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The fair value of the investment in TV programmes is level 3 (2022: level 3) fair value measurement. There were no transfers between Levels 1, 2 and 3 during the year (2022: nil).

Valuation technique used to determine fair value

Specific valuation techniques used to value financial instruments by adopting an income approach based on discounted cash flow.

Fair value measurements using significant unobservable inputs (level 3)

The above movement presents the changes in level 3 item for the years ended 31 December 2023 and 2022.

| Significant unobservable inputs | Unobservable inputs | Relationship of unobservable inputs to fair value |
|---|--|---|
| Discount rate | 21.78% (2022: 22.92%) | The higher/lower the discount rate, the lower/higher the fair value. |
| Estimated revenues generated by the TV programmes | RMB210,000,000 (2022: RMB210,000,000) | The higher/lower the estimated revenue generated by the TV programmes, the higher/lower the fair value. |

Should the discount rate increase or decrease by 3% respectively, the fair value of the investment in TV programmes would be decreased by HK\$1,315,208 (2022: HK\$1,064,015) or increased by HK\$1,229,067 (2022: HK\$1,128,634), respectively. Should the estimated revenues generated by the TV programmes increase or decrease by 10% respectively, the fair value of the investment in TV programmes would be increased or decreased by HK\$2,949,341 (2022: HK\$3,171,604).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

24. CASH AND CASH EQUIVALENTS

| | 2023 HK\$ | 2022 HK\$ |
|--------------------------------|--------------|--------------|
| Cash at banks and in hand | 7,224,481 | 6,236,472 |
| Denominated in: | | |
| RMB | 2,425,687 | 1,721,811 |
| HK\$ | 1,070,275 | 1,222,355 |
| United States dollars ("US\$") | 36,627 | 455,993 |
| New Taiwan dollars ("NTD") | 3,691,892 | 2,836,313 |
| | 7,224,481 | 6,236,472 |

As at 31 December 2023, bank balances of the Group denominated in RMB amounted to HK\$2,408,873 (2022: HK\$1,718,098) are deposits with banks in the PRC. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

25. TRADE AND OTHER PAYABLES

| | 2023 HK\$ | 2022 HK\$ |
|--------------------------------|--------------|--------------|
| Trade payables (<i>note</i>) | 8,715,302 | 15,847,797 |
| Other payables and accrual | 11,764,689 | 6,857,869 |
| | 20,479,991 | 22,705,666 |

Included in other payables and accrual of the Group are mainly audit fee payable, legal and professional fee payables, variable lease payable, salaries and wages payables, consultancy fee payable to Mr. Tsai and other tax payables.

Note:

Credit periods granted by suppliers normally range from 30 days to 90 days (2022: 30 days to 90 days). Based on the invoice date, the ageing analysis of the trade payables is as follows:

| | 2023 HK\$ | 2022 HK\$ |
|--------------|--------------|--------------|
| 0 – 30 days | 1,407,208 | 2,414,515 |
| 31 – 60 days | 1,519,966 | 2,482,576 |
| 61 – 90 days | 836,315 | 1,312,873 |
| Over 90 days | 4,951,813 | 9,637,833 |
| | 8,715,302 | 15,847,797 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

26. LEASE LIABILITIES

| | 2023 HK\$ | 2022 HK\$ |
|--|------------------|--------------|
| Total minimum lease payments: | | |
| Due within one year | 3,453,430 | 3,504,545 |
| Due over one year but within five years | 3,716,474 | 1,934,966 |
| | 7,169,904 | 5,439,511 |
| Future finance charges on leases liabilities | (342,466) | (195,425) |
| Present value of leases liabilities | 6,827,438 | 5,244,086 |
| Present value of minimum lease payments: | | |
| Due within one year | 3,231,661 | 3,347,596 |
| Due over one year but within five years | 3,595,777 | 1,896,490 |
| | 6,827,438 | 5,244,086 |
| Less: Portion due within one year included under current liabilities | (3,231,661) | (3,347,596) |
| Portion due after one year included under non-current liabilities | 3,595,777 | 1,896,490 |

During the year, the total cash outflows for the leases including short-term leases are HK\$5,370,023 (2022: HK\$6,204,251).

The weighted average incremental borrowing rates applied to lease liabilities range from 2.7% to 4.8% (2022: 2.1% to 4.9%) per annum.

During the years ended 31 December 2023 and 2022, the Group has lease contracts for printing and testing equipment that contain variable payments based on the number of smart card produced. The following provides information on the Group's variable lease payments, included the magnitude in relation to fixed payments:

| | Fixed payments HK\$ | Variable payments HK\$ | Total HK\$ |
|--|---------------------------|------------------------------|---------------|
| Variable rent with minimum payment | | | |
| For the year ended 31 December 2023 | – | 1,630,526 | 1,630,526 |
| For the year ended 31 December 2022 | – | 1,734,596 | 1,734,596 |

The Group has several lease contracts that include extension and termination options. In opinion of the directors of the Company, these options would provide with the Group flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised and these termination options are reasonably certain not to be exercised, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2023, there is no such triggering event (2022: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

26. LEASE LIABILITIES (Continued)

Extension and termination options

As at 31 December 2023, the Group has entered into leases for a factory, certain offices, a warehouse and certain staff quarters.

| Types of right-of-use assets | Number of leases | Range of remaining lease term | Particulars |
|------------------------------|------------------|--|--|
| Factory | 1 (2022: 1) | 1.84 years (2022: 1.82 years) | <ul style="list-style-type: none"> Contains a right to renew the lease after the end of the contract by giving a three months' notice to landlord before the end of the contract if the landlord agrees to continue leasing the property and an option to terminate the lease by giving a six months' notice to landlord. |
| Offices | 1 (2022: 2) | 3.13 years (2022: 1.12 to 1.84 years) | <ul style="list-style-type: none"> No option to renew and terminate. |
| Warehouse | 1 (2022: 1) | 1.84 years (2022: 0.90 year) | <ul style="list-style-type: none"> Contains an option to terminate the lease by giving a one month's notice to landlord after 1 year of the lease terms. |
| Staff quarters | 3 (2022: 2) | 0.75 to 1.84 years (2022: 0.40 to 1.75 years) | <ul style="list-style-type: none"> Two of the contracts contain an option to terminate the lease by giving a one month's notice to landlord after 1 year of the lease terms. One of the contracts contains a right to renew the lease after the end of the contract by giving a three months' notice to landlord before the end of the contract if the landlord agrees to continue leasing the property and an option to terminate the lease by giving a six months' notice to landlord. |

The Group considered that no extension option or termination option would be exercised at the lease commencement date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. OTHER BORROWINGS

| | 2023 HK\$ | 2022 HK\$ |
|---|--------------|--------------|
| Other borrowings from the substantial shareholder of the Company, unsecured | 987,342 | 1,337,500 |

As at 31 December 2023, the amount due to Mr. Tsai, the substantial shareholder of the Company was unsecured, interest-free and repayable on demand.

28. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the years are as follows:

| | Depreciation allowance in excess of accounting depreciation HK\$ |
|--|---|
| Balance at 1 January 2022, 31 December 2022 and 1 January 2023 | (4,707) |
| Credited to the consolidated statement of profit or loss and other comprehensive income during the year (<i>note 11</i>) | 4,707 |
| Balance at 31 December 2023 | – |

The Group has not recognised deferred tax assets in respect of tax losses of HK\$60,424,729 (2022: HK\$75,223,787) as at 31 December 2023. Deferred tax assets have not been recognised because it is not probable that future taxable profit will be available against which the Group can utilise benefits therefrom. Under the current tax legislation in Hong Kong, the tax losses amounting to HK\$41,126,686 (2022: HK\$36,933,559) do not have expiry period. Under the current tax legislation in the PRC, the tax losses amounting to HK\$6,673,379 (2022: HK\$25,359,244) can be carried forward for five years from the year when the corresponding loss was incurred. Under the current tax legislation in Taiwan, the tax losses amounting to HK\$12,624,664 (2022: HK\$12,930,984) can be carried forward for ten years from the year when the corresponding loss was incurred.

As at 31 December 2023, deferred tax liabilities have not been established for the withholding tax that would be payable on the undistributed earnings of HK\$18,312,264 (2022: HK\$11,667,228) of certain PRC subsidiaries because the Company controls the dividend policy of these subsidiaries and it is not probable that these subsidiaries will distribute such earnings in foreseeable future (2022: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

29. SHARE CAPITAL

| | 2023 | | 2022 | |
|----------------------------------|------------------|--------------------|------------------|--------------------|
| | Number of shares | Nominal value HK\$ | Number of shares | Nominal value HK\$ |
| Authorised: | | | | |
| Ordinary shares of HK\$0.20 each | | | | |
| At 1 January and 31 December | 1,500,000,000 | 300,000,000 | 1,500,000,000 | 300,000,000 |
| Issued and fully paid: | | | | |
| Ordinary shares of HK\$0.20 each | | | | |
| At 1 January and 31 December | 525,347,500 | 105,069,500 | 525,347,500 | 105,069,500 |

All shares are equally eligible to receive dividends and to the repayment of capital and each of the shares are entitled to one vote at shareholders' meeting of the Company.

30. SHARE OPTIONS

Pursuant to the resolution passed by the shareholders of the Company at the extraordinary general meeting of the Company dated 8 January 2008, a share option scheme (the "Share Option Scheme") was approved and adopted. The summary of the terms of the Share Option Scheme is set out below.

The purpose of the Share Option Scheme is to recognise and motivate the contribution of employees to the growth of the Group. Under the Share Option Scheme, the Board of Directors which shall include the independent non-executive directors may, at its discretion, invite any employees including any executive directors of any companies in the Group to take up options at HK\$1.00 to subscribe for shares in the Company at the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediate preceding the date of grant; and (iii) the nominal value of a share.

The total number of shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the Share Option Scheme.

Under the Share Option Scheme, any employee of the Group is eligible to participate as grantee in and receive share options. Unless approved by the shareholders in the manner set out below, the total number of shares issued and to be issued upon exercise of the share options granted to each participant (including both exercised and outstanding share options) in any 12-month period must not exceed 1 percent of the shares in issue ("Individual Limit"). Where any further grant of share options to a participant would result in the shares issued and to be issued upon exercise of all share options granted and to be granted to such participant (including exercised, cancelled and outstanding share options) exceeding his or her Individual Limit, such further grant must be separately approved by the shareholders in general meeting with such participant and his or her associates abstaining from voting.

The option period in respect of any particular option shall be determined by the Board of Directors, provided that no option shall be exercisable after ten years from the date of its grant.

The share options are fully vested at the date of grant. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options other than by issuing the Company's ordinary shares.

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30. SHARE OPTIONS (Continued)

Summary of the share options outstanding during the years ended 31 December 2023 and 2022 are as follows:

For the year ended 31 December 2023

| Name of participant | As at 1 January 2023 | Lapsed during the year | As at 31 December 2023 | Date of grant | Exercisable period | Exercise price HK\$ |
|--|----------------------------|------------------------------|------------------------------|----------------|-------------------------------------|---------------------------|
| Executive directors | | | | | | |
| Ms. Lily Wu | 4,500,000 | – | 4,500,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| Mr. Chang Wei Wen | 4,500,000 | – | 4,500,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| Mr. Yang Meng Hsiu | 4,500,000 | – | 4,500,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| Independent non-executive directors | | | | | | |
| Mr. Chan Siu Wing, Raymond | 450,000 | – | 450,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| Mr. Leung Ka Kui, Johnny (<i>note</i>) | 450,000 | (450,000) | – | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| Ms. Wong Ka Wai, Jeanne | 450,000 | – | 450,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| | 14,850,000 | (450,000) | 14,400,000 | | | |
| Other employees | | | | | | |
| In aggregate | 22,779,250 | – | 22,779,250 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| | 37,629,250 | (450,000) | 37,179,250 | | | |

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For the year ended 31 December 2023

30. SHARE OPTIONS (Continued)

For the year ended 31 December 2022

| Name of participant | As at 1 January 2022 | Lapsed during the year | As at 31 December 2022 | Date of grant | Exercisable period | Exercise price HK\$ |
|--|----------------------------|------------------------------|------------------------------|----------------|-------------------------------------|---------------------------|
| Executive directors | | | | | | |
| Ms. Lily Wu | 4,500,000 | – | 4,500,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| Mr. Chang Wei Wen | 4,500,000 | – | 4,500,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| Mr. Yang Meng Hsiu | 4,500,000 | – | 4,500,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| Independent non-executive directors | | | | | | |
| Mr. Chan Siu Wing, Raymond | 450,000 | – | 450,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| Mr. Leung Ka Kui, Johnny (<i>note</i>) | 450,000 | – | 450,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| Ms. Wong Ka Wai, Jeanne | 450,000 | – | 450,000 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| | 14,850,000 | – | 14,850,000 | | | |
| Other employees | | | | | | |
| In aggregate | 22,779,250 | – | 22,779,250 | 3 January 2018 | 3 January 2018 to 2 January 2028 | 0.20 |
| | 37,629,250 | – | 37,629,250 | | | |

Note:

Mr. Leung Ka Kui, Johnny resigned as independent non-executive director of the Company with effect from 15 December 2022. His share options lapsed on 14 March 2023, being three months following the date of his resignation, according to the policy of Share Option Scheme.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

30. SHARE OPTIONS (Continued)

| | As at 1 January 2023 HK\$ | Lapsed during the year HK\$ | As at 31 December 2023 HK\$ |
|---|------------------------------------|--------------------------------------|--------------------------------------|
| Weighted average exercise price per share | 0.20 | 0.20 | 0.20 |
| Weighted average remaining contractual life of options outstanding as at 31 December 2023 | | | 4.01 years |
| Number of options exercisable as at 31 December 2023 | | | 37,179,250 |
| Weighted average exercise price per share of options exercisable as at 31 December 2023 | | | HK\$0.20 |

| | As at 1 January 2022 HK\$ | Lapsed during the year HK\$ | As at 31 December 2022 HK\$ |
|---|------------------------------------|--------------------------------------|--------------------------------------|
| Weighted average exercise price per share | 0.20 | – | 0.20 |
| Weighted average remaining contractual life of options outstanding as at 31 December 2022 | | | 5.01 years |
| Number of options exercisable as at 31 December 2022 | | | 37,629,250 |
| Weighted average exercise price per share of options exercisable as at 31 December 2022 | | | HK\$0.20 |

The Company did not grant any share options during the years ended 31 December 2023 and 2022. Except as disclosed above, no share options were exercised, lapsed or forfeited during the years ended 31 December 2023 and 2022.

31. DEFICIT IN RESERVES

The Group

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

Share premium represents the excess of the net proceeds from issuance of the shares of the Company over its par value, less any dividends paid out of the share premium account and any premium paid for the repurchase of shares of the Company.

Contributed surplus of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries acquired pursuant to a group reorganisation conducted in previous years over the nominal value of the share capital of the Company issued in exchange therefore, less share issue expenses.

Share option reserve represents the fair value of outstanding share options at each reporting date, which was measured at the respective grant date of each share option.

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31. DEFICIT IN RESERVES (Continued)

The Group (Continued)

Translation reserve of the Group represents the exchange differences on translation of the financial statements of the PRC subsidiaries and a Taiwan subsidiary.

Certain portion of the retained earnings of the Company's PRC subsidiaries is restricted for distribution. Under the relevant PRC laws and regulations, the PRC subsidiaries are required to appropriate at least 10% of profit after tax to general reserve fund until reaching 50% of the registered capital. The general reserve fund can be applied to set-off accumulated losses and to convert into paid-in capital. Such restricted profits included in the Group's accumulated losses amounted to HK\$11,221,302 (2022: HK\$10,543,148).

The Company

| | Share premium HK\$ | Contributed surplus HK\$ | Share option reserve HK\$ | Other reserves HK\$ | Accumulated losses HK\$ | Total HK\$ |
|--|--------------------------|--------------------------------|------------------------------------|---------------------------|-------------------------------|---------------------|
| Balance at 1 January 2022 | 363,340,792 | 24,190,659 | 3,339,000 | 7 | (457,174,711) | (66,304,253) |
| Loss for the year and total comprehensive loss for the year | - | - | - | - | (6,828,583) | (6,828,583) |
| Balance at 31 December 2022 and 1 January 2023 | 363,340,792 | 24,190,659 | 3,339,000 | 7 | (464,003,294) | (73,132,836) |
| Profit for the year and total comprehensive income for the year | - | - | - | - | 6,291,421 | 6,291,421 |
| Lapse of share option (<i>note 30</i>) | - | - | (39,930) | - | 39,930 | - |
| Balance at 31 December 2023 | 363,340,792 | 24,190,659 | 3,299,070 | 7 | (457,671,943) | (66,841,415) |

Share premium represents the excess of the net proceeds from issuance of the shares of the Company over its par value, less any dividends paid out of the share premium account and any premium paid for the repurchase of shares of the Company.

Contributed surplus of the Company represents the difference between the combined net assets value of the subsidiaries acquired pursuant to a group reorganisation conducted in previous years over the nominal value of the share capital of the Company issued in exchange therefore, less share issue expenses.

Share option reserve represents the fair value of outstanding share options at each reporting date, which was measured at the respective grant date of each share option.

Notes to the Consolidated Financial Statements

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32. COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

| | <i>Notes</i> | 2023 HK\$ | 2022 HK\$ |
|--|--------------|--------------------|--------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | | – | 2,478 |
| Right-of-use assets | | 2,590,838 | 976,486 |
| Interests in subsidiaries | | 39,946,656 | 33,149,543 |
| Deposits | | 291,140 | 291,140 |
| | | 42,828,634 | 34,419,647 |
| Current assets | | | |
| Deposits and prepayments | | 346,460 | 140,793 |
| Cash and cash equivalents | | 537,990 | 769,276 |
| | | 884,450 | 910,069 |
| Current liabilities | | | |
| Other payables | | 2,442,376 | 1,943,835 |
| Lease liabilities | | 818,980 | 922,302 |
| Amounts due to subsidiaries | | 409,875 | 409,875 |
| | | 3,671,231 | 3,276,012 |
| Net current liabilities | | (2,786,781) | (2,365,943) |
| Total assets less current liabilities | | 40,041,853 | 32,053,704 |
| Non-current liability | | | |
| Lease liabilities | | 1,813,768 | 117,040 |
| Net assets | | 38,228,085 | 31,936,664 |
| EQUITY | | | |
| Share capital | <i>29</i> | 105,069,500 | 105,069,500 |
| Deficit in reserves | <i>31</i> | (66,841,415) | (73,132,836) |
| Total equity | | 38,228,085 | 31,936,664 |

The financial statements of the Company were approved and authorised for issue by the Board of Directors on 25 March 2024 and are signed on its behalf by:

Lily Wu
Director

Chang Wei Wen
Director

Notes to the Consolidated Financial Statements

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33. INTERESTS IN SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2023 and 2022 are as follows:

| Name of company | Place of incorporation/ establishment and operation and kind of legal entity | Particulars of issued capital/paid-up registered capital | Percentage of interest held by the Company | | Principal activities |
|---|---|--|--|------|---|
| | | | 2023 | 2022 | |
| Directly held: | | | | | |
| Waystech Group Limited | The BVI, limited liability company | US\$10,000 | 100% | 100% | Investment holding |
| Indirectly held: | | | | | |
| Cardlink Technology (HK) Limited | Hong Kong, limited liability company | HK\$10,000 | 100% | 100% | Investment holding |
| Elegant Future (Hong Kong) Limited | Hong Kong, limited liability company | HK\$1 | 100% | 100% | Investment holding and trading of scrap vehicles |
| Elegant Future (Taiwan) Company Limited | Taiwan, limited liability company | NTD72,166,000 | 100% | 100% | Sales and trading of scrap metals |
| InterCARD Limited | Hong Kong, limited liability company | HK\$10,666,667 | 100% | 100% | Sales of smart cards, system development and provision of research and development, marketing and sales |
| Kartop (Hong Kong) Limited | Hong Kong, limited liability company | HK\$10,000 | 100% | 100% | Investment in media and entertainment industry |
| PMIS Limited | Hong Kong, limited liability company | HK\$10,000 | 100% | 100% | Development and provision of smart card application systems |
| Top Wise Technology (Shenzhen) Limited | The PRC, wholly-foreign-owned enterprises | HK\$10,000,000 | 100% | 100% | Smart cards manufacturing and sales |

None of the subsidiaries has issued any debt securities at the end of the year (2022: nil).

The non-controlling interest of the subsidiary that are not 100% owned by the Group is considered to be immaterial and hence no summarised financial information for that subsidiary is presented.

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34. SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the consolidated financial statements, the following transactions were carried out by the Group in the ordinary course of business with related parties.

(a) Transactions with related parties

| Related party relationship | Type of transactions | 2023 HK\$ | 2022 HK\$ |
|--|--|--------------|--------------|
| Mr. Tsai, the substantial shareholder of the Company | Consultancy fee expense | 1,320,000 | 1,320,000 |
| | Salaries and allowances | 267,114 | 266,964 |
| | Rental expense relating to short-term leases | 266,651 | 286,060 |
| | Non-interest bearing borrowings – proceeds | 3,724,546 | 1,337,500 |
| | Non-interest bearing borrowings – repayments | 4,106,826 | – |
| Leonids Consulting Limited | Consultancy fee expense | 224,640 | 84,240 |

(b) Compensation of key management personnel

Members of key management personnel during the year comprised the directors of the Company whose remunerations are set out in note 15.

35. COMMITMENTS

As at the end of the reporting period, the Group had significant commitments as follows:

(a) Capital commitments

| | 2023 HK\$ | 2022 HK\$ |
|--|--------------|--------------|
| Contracted but not provided for: | | |
| – Acquisition of property, plant and equipment | 1,191,274 | 74,143 |

(b) Short-term lease commitments

As lessee

At the reporting date, the lease commitments for short-term leases are as follows:

| | 2023 HK\$ | 2022 HK\$ |
|-----------------|--------------|--------------|
| Within one year | 44,658 | 44,100 |

As at 31 December 2023, the Group leases an office (2022: an office) with a lease period of 12 months, which is qualified to be accounted for under short-term lease exemption under HKFRS 16.

Notes to the Consolidated Financial Statements

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36. CASH FLOW INFORMATION

Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

| | Other borrowings – shareholder's loans HK\$ | Lease liabilities HK\$ |
|---|--|---------------------------|
| At 1 January 2022 | – | 8,589,843 |
| Changes from financing cash flows: | | |
| – Proceeds from other borrowings | 1,337,500 | – |
| – Payment of capital element | – | (3,410,829) |
| – Payment of interest element | – | (284,865) |
| Other changes: | | |
| – Exchange realignment | – | (399,650) |
| – Entering into new leases | – | 464,722 |
| – Interest expense | – | 284,865 |
| At 31 December 2022 and 1 January 2023 | 1,337,500 | 5,244,086 |
| Changes from financing cash flows: | | |
| – Proceeds from other borrowings | 3,724,546 | – |
| – Repayments of other borrowings | (4,106,826) | – |
| – Payment of capital element | – | (3,499,905) |
| – Payment of interest element | – | (194,276) |
| Other changes: | | |
| – Early termination of lease agreements | – | (1,833,475) |
| – Exchange realignment | 32,122 | 27,190 |
| – Entering into new leases | – | 6,889,542 |
| – Interest expense | – | 194,276 |
| At 31 December 2023 | 987,342 | 6,827,438 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk and foreign currency risk). The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

In light of the simplicity of the operations, the risk management of the Group is carried out by the Board of Directors directly. The Board of Directors discusses both formally and informally principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk, liquidity risk and use of financial instruments.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

37.1 Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and financial liabilities:

| | 2023 HK\$ | 2022 HK\$ |
|--|-------------------|--------------|
| Financial assets | | |
| Financial assets at FVTPL | | |
| – Investment in TV programmes | 29,735,683 | 31,685,393 |
| Financial assets at amortised cost | | |
| – Trade and other receivables and deposits | 15,071,482 | 13,473,841 |
| – Cash and cash equivalents | 7,224,481 | 6,236,472 |
| | 52,031,646 | 51,395,706 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | | |
| – Trade and other payables | 17,678,026 | 21,756,078 |
| – Lease liabilities | 6,827,438 | 5,244,086 |
| – Other borrowings | 987,342 | 1,337,500 |
| | 25,492,806 | 28,337,664 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

37.2 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position at 31 December 2023 and 2022 is the carrying amount as disclosed in note 37.1.

(i) Trade receivables

The Group's policy is to deal only with credit worthy counterparties. Credit terms are granted to new customers after a credit worthiness assessment. When considered appropriate, customers may be requested to provide proof as to their financial position. Where available at reasonable cost, external credit ratings and/or reports on customers are obtained and used. Customers who are not considered creditworthy are required to pay in advance or on delivery of goods. Payment record of customers is closely monitored. It is not the Group's policy to request collateral from its customers.

In addition, as set out in note 2.6, the Group assesses ECL under HKFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 36 months as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However, given the short period exposed to credit risk and no historical default in the past few years, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments within 90 days from the due date and failure to engage with the Company on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

37.2 Credit risk (Continued)

(i) Trade receivables (Continued)

On the above basis, the ECL for trade receivables as at 31 December 2023 and 2022 was determined as follows:

| | Current HK\$ | 1-30 days past due HK\$ | 31-90 days past due HK\$ | Over 90 days past due HK\$ | Total HK\$ |
|-------------------------------|-----------------|-------------------------------|--------------------------------|----------------------------------|---------------|
| Ageing based on the due date | | | | | |
| As at 31 December 2023 | | | | | |
| ECL rate | 0.00% | 0.00% | 0.00% | 0.00% | |
| Gross carrying amount | | | | | |
| – trade receivables | 8,760,702 | 3,153,474 | 1,241,740 | – | 13,155,916 |
| Lifetime ECL | – | – | – | – | – |
| As at 31 December 2022 | | | | | |
| ECL rate | 0.01% | 0.01% | 0.01% | 0.01%-100% | |
| Gross carrying amount | | | | | |
| – trade receivables | 7,519,545 | 1,483,502 | 654,353 | 8,946 | 9,666,346 |
| Lifetime ECL | 356 | 92 | 24 | 1 | 473 |

The movement in the ECL allowance of trade receivables is as follows:

| | 2023 HK\$ | 2022 HK\$ |
|--|--------------|--------------|
| Balance at 1 January | 473 | 20,027 |
| ECL allowance reversed during the year | (473) | (19,554) |
| Balance at 31 December | – | 473 |

During the year ended 31 December 2023, management has determined none (2022: none) of the trade receivables as individually impaired and written off as bad debts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

37.2 Credit risk (Continued)

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and deposits and bank balances. In order to minimise the credit risk of other receivables, the management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables is considered to be low. It is not the Group's policy to request collateral from its other debtors.

The management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low after considering the factors as set out in note 2.6 and, thus, ECL recognised is based on 12-month ECL and the impact of ECL is insignificant for the years ended 31 December 2023 and 2022.

The credit risks on bank balance are considered to be insignificant because the counterparties are banks/ financial institutions with high credit ratings assigned by international credit-rating agencies.

The policy to manage credit risk has been followed by the Group since prior years is considered to be effective.

The movement in the ECL allowance of other receivables and deposits is as follows:

| | 2023 HK\$ | 2022 HK\$ |
|--|----------------|--------------|
| Balance at 1 January | 611,462 | 597,585 |
| ECL allowance recognised during the year | 15,389 | 13,877 |
| Balance at 31 December | 626,851 | 611,462 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

37.3 Liquidity risk

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

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants by reviewing each operating entity's cash flow forecast, to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions and related parties to meet its liquidity requirements in the short and longer term. The liquidity policy has been followed by the Group since prior years and is considered to have been effective in managing liquidity risks.

| | Within 1 year or on demand HK\$ | Over 1 year but within 5 years HK\$ | Total undiscounted amount HK\$ | Carrying amount HK\$ |
|----------------------------|---------------------------------------|---|---|----------------------------|
| At 31 December 2023 | | | | |
| Trade and other payables | 17,678,026 | – | 17,678,026 | 17,678,026 |
| Lease liabilities | 3,453,430 | 3,716,474 | 7,169,904 | 6,827,438 |
| Other borrowings | 987,342 | – | 987,342 | 987,342 |
| | 22,118,798 | 3,716,474 | 25,835,272 | 25,492,806 |
| At 31 December 2022 | | | | |
| Trade and other payables | 21,756,078 | – | 21,756,078 | 21,756,078 |
| Lease liabilities | 3,504,545 | 1,934,966 | 5,439,511 | 5,244,086 |
| Other borrowings | 1,337,500 | – | 1,337,500 | 1,337,500 |
| | 26,598,123 | 1,934,966 | 28,533,089 | 28,337,664 |

37.4 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk mainly arises from bank balances.

The Group conducts periodical review to determine preferred interest rates mix appropriate for the business profile. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The policy to manage interest rate risk has been followed by the Group since prior years is considered to be effective.

The Group has no significant exposure to interest rates risk as the Group currently has no material financial assets and liabilities with floating interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

37.5 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from its investment in TV programmes and overseas sales and purchases, which are primarily denominated in RMB and US\$. These are not the functional currencies of the group entities to which these transactions relate.

To mitigate the Group's exposure to foreign currency risk, cash flows in foreign currencies are monitored into in accordance with the Group's risk management policies. Generally, the Group's risk management procedures distinguish short term foreign currency cash flows (due within 6 months) from longer term cash flows. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. The policy to manage foreign currency risk has been followed by the Group since prior years and is considered to be effective.

Summary of exposure

The carrying amounts of the Group's financial assets and financial liabilities denominated in a currency other than functional currency of the respective group entities at the end of each year are as follows:

| | 2023 | | 2022 | |
|---|----------------------------|-----------------------------|----------------------------|-----------------------------|
| | Exposure of RMB HK\$ | Exposure of US\$ HK\$ | Exposure of RMB HK\$ | Exposure of US\$ HK\$ |
| Trade and other receivables and deposits | – | 11,975,116 | – | 9,201,360 |
| Investment in TV programmes | 29,735,683 | – | 31,685,393 | – |
| Cash and cash equivalents | 13,125 | 36,627 | 43 | 455,993 |
| Trade and other payables | (16,333) | (1,322,463) | (16,663) | (1,322,463) |
| Gross exposure arising from recognised financial assets and financial liabilities | 29,732,475 | 10,689,280 | 31,668,773 | 8,334,890 |

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT (Continued)

37.5 Foreign currency risk (Continued)

Sensitivity analysis

As HK\$ is pegged to US\$, the directors of the Company consider that the Group's exposure on foreign currency risk in respect of US\$ is not significant. The following table illustrates the sensitivity of the Group's profit (2022: loss) for the year and accumulated losses in regards to a 5% (2022: 5%) appreciation in the group entities' functional currencies against other foreign currencies. The 5% (2022: 5%) is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

The sensitivity analysis of the Group's exposure to foreign currency risk at the end of the reporting period has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

| | 2023 Decrease/ (increase) in profit for the year and increase/ (decrease) in accumulated losses HK\$ | 2022 Increase/ (decrease) in loss for the year and accumulated losses HK\$ |
|--|---|---|
| Changes in exchange rate: | | |
| HK\$ appreciate by 5% (2022: 5%) against RMB | 1,241,331 | 1,583,439 |
| HK\$ depreciate by 5% (2022: 5%) against RMB | (1,241,331) | (1,583,439) |

The sensitivity analysis for the year ended 31 December 2022 has been prepared on the same basis. Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions.

37.6 Fair value measurements of financial instruments

The Group's financial instruments classified within Level 3 of the fair value hierarchy represent the investment in TV programmes, the valuation process and the reconciliation of its carrying amounts as at 31 December 2023 and 2022 are disclosed in note 23. Except as disclosed above, all other financial instruments are carried at amortised cost with amounts not materially different from their fair values as at 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

38. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The capital structure of the Group consists of debt, which included other borrowings as disclosed in note 27, and equity attributable to the owners of the Company, comprising share capital and deficits in reserves disclosed in the consolidated statement of changes in equity. No changes in the objectives, policies or processes for managing capital were made during the year.

For the year ended 31 December 2023, the Group entered into agreements to purchase equipment for the new plant as disclosed in note 22. Partial prepayments were paid and the reminding balance of HK\$1,191,274 (2022: HK\$74,143) will be paid within 12 months after the financial year ended 31 December 2023.

The Group monitors capital on the basis of gearing ratio. The ratio defined and calculated by the Group as total borrowings including lease liabilities expressed as a percentage of total assets, was 11.3% (2022: 9.9%) as at 31 December 2023.

39. EVENT AFTER THE REPORTING PERIOD

The Company entered into a subscription agreement with an independent subscriber on 10 February 2023 (the "Subscription Agreement") to raise additional capital of HK\$16,500,000 by issuance of convertible bonds. As at 31 December 2023 and up to the date of authorisation of these consolidated financial statements, in the option of the directors of the Company, the precedent conditions of the Subscription Agreement were not fulfilled and the convertible bonds have not yet been issued. On 29 February 2024, the Company entered into an extension letter with the independent subscriber to further extend the long stop date of the Subscription Agreement to 30 April 2024. Further details regarding the issuance and extension of the convertible bonds are disclosed in the announcements of the Company dated 10 February 2023, 28 February 2023, 21 March 2023, 11 April 2023, 2 May 2023, 23 May 2023, 5 July 2023, 18 August 2023, 31 October 2023, 20 December 2023 and 29 February 2024.

Financial Summary

For the year ended 31 December 2023

The following is a summary of the consolidated results and consolidated assets and liabilities of the Group for each of the five years ended 31 December 2023:

CONSOLIDATED RESULTS

| | 2019 HK\$ | 2020 HK\$ | 2021 HK\$ | 2022 HK\$ | 2023 HK\$ |
|---|--------------|--------------|--------------|--------------|-------------------|
| Continuing operations | | | | | |
| Revenue | 67,612,736 | 76,098,619 | 72,755,127 | 58,482,208 | 79,104,966 |
| (Loss)/profit from operations | (25,279,757) | 4,330,127 | (4,800,947) | (7,450,665) | 4,523,991 |
| Finance costs | (589,573) | (394,596) | (387,224) | (284,865) | (194,276) |
| (Loss)/profit before income tax | (25,869,330) | 3,935,531 | (5,188,171) | (7,735,530) | 4,329,715 |
| Income tax credit/(expense) | – | 20,000 | (574,887) | – | 4,707 |
| (Loss)/profit for the year from continuing operations | (25,869,330) | 3,955,531 | (5,763,058) | (7,735,530) | 4,334,422 |
| Discontinued operation | | | | | |
| Loss for the year from discontinued operation | (16,361,773) | – | – | – | – |
| (Loss)/profit for the year | (42,231,103) | 3,955,531 | (5,763,058) | (7,735,530) | 4,334,422 |

CONSOLIDATED ASSETS AND LIABILITIES

| | 2019 HK\$ | 2020 HK\$ | 2021 HK\$ | 2022 HK\$ | 2023 HK\$ |
|-------------------------|--------------|--------------|--------------|--------------|-------------------|
| Non-current assets | 14,978,949 | 49,560,219 | 48,891,615 | 42,386,503 | 42,542,733 |
| Current assets | 71,307,267 | 44,401,769 | 36,327,425 | 23,931,512 | 26,519,196 |
| Current liabilities | 33,651,104 | 36,043,514 | 34,585,922 | 27,390,762 | 24,698,994 |
| Non-current liabilities | 6,924,020 | 7,523,495 | 5,154,467 | 2,238,735 | 3,923,115 |