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**Virtual Mind Holding Company Limited**  
**天機控股有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1520)**

**ANNOUNCEMENT OF ANNUAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

**FINANCIAL HIGHLIGHTS**

- Revenue of the Group for the year ended 31 December 2022 was approximately HK\$89,620,000 (2021: HK\$139,818,000), representing a decrease of approximately 35.9% as compared with the previous year.
- The loss attributable to owners of the Company for the year ended 31 December 2022 was approximately HK\$65,895,000 (2021: HK\$46,271,000), representing an increase of approximately 42.4%.
- Loss per share of the Company for the year ended 31 December 2022 was approximately HK3.57 cents (2021: HK2.74 cents).
- The Directors do not recommend the payment of any final dividend for the year ended 31 December 2022.

## RESULTS

The board of Directors (the “Board”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2022 together with the comparative figures for the corresponding period in 2021 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2022*

	<i>Notes</i>	<b>2022</b> <b>HK\$'000</b>	2021 <i>HK\$'000</i>
<b>Revenue</b>	5	<b>89,620</b>	139,818
Cost of sales		<u>(75,560)</u>	<u>(101,119)</u>
<b>Gross profit</b>		<b>14,060</b>	38,699
Other gains and losses, net	5	<b>66,221</b>	1,831
Impairment of goodwill		<b>(34,632)</b>	–
(Provision for)/reversal of expected credit loss on trade receivables		<b>(550)</b>	125
Provision for expected credit loss on loans and interest receivables		<b>(21,196)</b>	(18,042)
Selling and distribution expenses		<b>(1,865)</b>	(17,197)
Administrative expenses		<b>(76,290)</b>	(51,070)
Finance costs		<b>(3,991)</b>	(366)
Share of results of associates		<u><b>(160)</b></u>	<u>–</u>
<b>Loss before income tax</b>	6	<b>(58,403)</b>	(46,020)
Income tax expense	7	<u><b>(7,472)</b></u>	<u>(251)</u>
<b>Loss for the year</b>		<u><b>(65,875)</b></u>	<u>(46,271)</u>
<b>Other comprehensive income, net of tax, attributable to owners of the Company</b>			
<b>Item that may be reclassified subsequently to profit or loss:</b>			
Exchange (loss)/gain on translation of financial statements of foreign operations		<u><b>(2,358)</b></u>	<u>362</u>
<b>Total comprehensive loss for the year</b>		<u><b>(68,233)</b></u>	<u>(45,909)</u>

<i>Notes</i>	<b>2022</b> <b><i>HK\$'000</i></b>	2021 <i>HK\$'000</i>
<b>Loss for the year attributable to:</b>		
Owners of the Company	<b>(65,895)</b>	(46,271)
Non-controlling interests	<b>20</b>	–
	<hr/> <b>(65,875)</b> <hr/>	<hr/> (46,271) <hr/>
<b>Total comprehensive loss for the year attributable to:</b>		
Owners of the Company	<b>(68,253)</b>	(45,909)
Non-controlling interests	<b>20</b>	–
	<hr/> <b>(68,233)</b> <hr/>	<hr/> (45,909) <hr/>
Loss per share attributable to owners of the Company		
Basic (in HK cents)	<b>(3.57)</b>	(2.74)
	<hr/> <b>(3.57)</b> <hr/>	<hr/> (2.74) <hr/>
Diluted (in HK cents)	<b>(3.57)</b>	(2.74)
	<hr/> <b>(3.57)</b> <hr/>	<hr/> (2.74) <hr/>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 HK\$'000	2021 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Interests in associates		840	–
Property, plant and equipment		2,367	8,237
Right-of-use assets		2,818	5,486
Loans and interest receivables	13	–	1,803
Other receivable		400	–
Goodwill	10	42,543	34,632
Intangible asset		800	800
Deferred tax assets		554	562
		<u>50,322</u>	<u>51,520</u>
<b>Current assets</b>			
Inventories	11	6,564	6,016
Trade receivables	12	39,065	27,486
Loans and interest receivables	13	98,163	112,864
Deposits, prepayments and other receivables		29,003	5,534
Tax recoverable		55	383
Financial assets at fair value through profit or loss		13,189	15,681
Cash and cash equivalents		52,012	15,348
		<u>238,051</u>	<u>183,312</u>
<b>Current liabilities</b>			
Trade payables	14	17,586	19,124
Accruals, other payables and receipts in advance		22,074	10,968
Contract liabilities		893	529
Other borrowings	15	4,760	4,057
Provision for taxation		7,063	–
Lease liabilities	16	1,481	2,965
		<u>53,857</u>	<u>37,643</u>
<b>Net current assets</b>		<u>184,194</u>	<u>145,669</u>
<b>Total assets less current liabilities</b>		<u>234,516</u>	<u>197,189</u>
<b>Non-current liabilities</b>			
Lease liabilities	16	1,192	932
Other borrowings	15	24,024	–
		<u>25,216</u>	<u>932</u>
<b>Net assets</b>		<u>209,300</u>	<u>196,257</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		19,836	16,900
Reserves		188,596	179,357
		<u>208,432</u>	<u>196,257</u>
Non-controlling interests		868	–
<b>Total equity</b>		<u>209,300</u>	<u>196,257</u>

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

### 1. GENERAL

Virtual Mind Holding Company Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 19 June 2013. The address of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-III, Cayman Islands and Room 2511-15, 25/F, Peninsula Tower, 538 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

At the extraordinary general meeting of the Company held on 25 March 2022, the shareholders of the Company passed a special resolution which approved a change of the Company’s name from “CEFC Hong Kong Financial Investment Company Limited 香港華信金融投資有限公司” to “Virtual Mind Holding Company Limited 天機控股有限公司”.

The Company is an investment holding company and its subsidiaries (together the “Group”) are principally engaged in the design, manufacturing and trading of apparels, provision of money lending services and sale of trendy and cultural products.

The consolidated financial statements for the year ended 31 December 2022 were approved for issue by the board of directors on 30 March 2023.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”)

### 2.1 Adoption of new or amended HKFRSs – effective 1 January 2022

The Hong Kong Institute of Certified Public Accountants has issued a number of amended HKFRSs that are first effective for the current accounting period of the Group:

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

The Group has early adopted above amendment to HKFRS 16 for its annual reporting period beginning on 1 January 2021. The adoption of remaining amendments to HKFRSs has no material impact on the Group’s results and financial position for the current or prior period. The Group has not early applied any new or amended HKFRSs that is not yet effective for the current accounting period.

### 2.2 New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group’s current intention is to apply these changes on the date they become effective.

Amendments to HKAS 1	Classification of liabilities as Current or Non-current <sup>2</sup>
Amendments to HKAS 1	Non-current Liabilities with Covenants <sup>2</sup>
HK Interpretation 5 (2022)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause <sup>2</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback <sup>2</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2024.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

The Group is in the process of making an assessment of the impact of these new or revised HKFRSs upon initial application. Up to now, the Group considers that these standards will not have a significant impact on the Group’s financial performance and financial position.

### 3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared under historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss (“FVTPL”) as disclosed in the accounting policies and explanatory notes below.

It should be noted that accounting estimates and assumptions are used in the preparation of the consolidated financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

#### **4. SEGMENT INFORMATION**

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by the Group’s chief operating decision maker (being the executive directors of the Company) in order to allocate resources and assess performance of the segment. During the year, the Company has identified design, manufacture and trading of apparels, provision for money lending services and sale of trendy cultural products as the reportable and operating segments of the Group.

Each of these operating segments is managed separately as each of them requires different business strategies.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than certain cash and bank balances and other corporate assets not attributable to the reportable segments;
- all liabilities are allocated to operating segments other than certain lease liabilities and other corporate liabilities not attributable to the reportable segments; and
- segment results represent the loss or profit incurred or earned by each segment without allocation of certain other income, certain administrative expenses, such as the Group’s headquarter administrative staff costs and directors’ emoluments.



The segment information provided to the executive directors for the reportable segments during the year is as follows:

	<b>Design, manufacturing and trading of apparels <i>HK\$'000</i></b>	<b>Money lending services <i>HK\$'000</i></b>	<b>Sale of trendy cultural products <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
<b>Year ended 31 December 2022</b>				
Revenue from external customers	<u>74,337</u>	<u>13,631</u>	<u>1,652</u>	<u>89,620</u>
Segment profit/(loss)	44,711	(58,719)	(1,631)	(15,639)
<i>Reconciliation</i>				
Bank interest income				105
Unallocated corporate expenses				(38,878)
Finance costs				<u>(3,991)</u>
Loss before tax				<u>(58,403)</u>
<b>At 31 December 2022</b>				
Segment assets	105,758	116,949	51,123	273,830
Other corporate assets				<u>14,543</u>
Total assets				<u>288,373</u>
Segment liabilities	35,933	6,685	3,043	45,661
Other corporate liabilities				<u>33,412</u>
Total liabilities				<u>79,073</u>
<b>Other segment information</b>				
<b>Year ended 31 December 2022</b>				
Amounts included in the measure of segment profit or loss or segment assets:				
Provision for inventories	(1,297)	–	–	(1,297)
Write-off of other receivables	(2,586)	–	–	(2,586)
Provision for ECL on trade receivables	(550)	–	–	(550)
Provision for ECL on loans and interest receivables	–	(21,196)	–	(21,196)
Impairment of goodwill	–	(34,632)	–	(34,632)
Gain on disposal of land and buildings	74,762	–	–	74,762
Fair value change on financial assets at FVTPL	–	(10,111)	–	(10,111)
Depreciation ( <i>note (a)</i> )	(2,084)	(1,239)	(466)	(3,789)
Capital expenditure ( <i>note (a)</i> )	<u>2,075</u>	<u>16</u>	<u>524</u>	<u>2,615</u>

	Design, manufacturing and trading of apparels <i>HK\$'000</i>	Money lending services <i>HK\$'000</i>	Sale of trendy cultural products <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Year ended 31 December 2021</b>				
Revenue from external customers	129,254	10,564	–	139,818
Segment loss	(4,129)	(20,521)	–	(24,650)
<i>Reconciliation</i>				
Bank interest income				1
Unallocated corporate expenses				(21,005)
Finance costs				(366)
Loss before tax				(46,020)
<b>At 31 December 2021</b>				
Segment assets	53,033	179,104		232,137
Other corporate assets				2,695
Total assets				234,832
Segment liabilities	28,500	5,865		34,365
Other corporate liabilities				4,210
Total liabilities				38,575
<b>Other segment information</b>				
<b>Year ended 31 December 2021</b>				
Amounts included in the measure of segment profit or loss or segment assets:				
Provision for inventories	(521)	–	–	(521)
Reversal of provision for ECL on trade receivables	125	–	–	125
Provision for ECL on loans and interest receivables	–	(18,042)	–	(18,042)
Loss arising from derecognition of loans and interest receivables	–	(3,959)	–	(3,959)
Fair value change on financial assets at FVTPL	–	(2,679)	–	(2,679)
Depreciation ( <i>note (a)</i> )	(3,508)	(2,151)	–	(5,659)
Capital expenditure ( <i>note (a)</i> )	1,463	2,133	–	3,596

The Company is an investment holding company and the principal places of the Group's operations are in the PRC (including Hong Kong). Management determines the Group is domiciled in both Hong Kong, and in the PRC, which is the Group's principal operating location. No revenue was earned from transactions with other operating segments of the Group.

The Group's revenue from external customers is divided into the following geographical areas, based on locations of customers:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
The USA	<b>2,031</b>	89,056
Hong Kong	<b>27,654</b>	40,106
The PRC	<b>59,935</b>	10,656
	<b>89,620</b>	139,818

Geographical location of external customers is based on the location at which the customers are domiciled.

The principal non-current assets held by the Group are located in the PRC (including Hong Kong).

Revenue from each of the major customers which accounted for 10% or more of the Group's revenue for the year is set out below:

	<b>2022</b> <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Customer A	<b>20,536</b>	N/A*
Customer B	<b>12,916</b>	N/A*
Customer C	<b>12,319</b>	N/A*
Customer D	N/A <sup>^</sup>	30,749
Customer E	N/A <sup>^</sup>	29,435
Customer F	N/A <sup>^</sup>	23,168

\* The revenue from this customer accounted for less than 10% of the Group's revenue for the year ended 31 December 2021.

<sup>^</sup> The revenue from this customer accounted for less than 10% of the Group's revenue for the year ended 31 December 2022.

As at 31 December 2022, 59% (2021: 12%) of the Group's trade receivables was due from these customers. Revenue earned from these customers were reported in the design, manufacturing and trading of apparels operating segment.

Note:

- (a) Depreciation and capital expenditures, which represent the depreciation and additions of property, plant and equipment and right-of-use assets, have been included in:

	<b>Design, manufacturing and trading of apparels</b>	<b>Money lending services</b>	<b>Sale of trendy cultural products</b>	<b>Unallocated</b>	<b>Consolidated</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
<b>For the year ended</b>					
<b>31 December 2022</b>					
Depreciation	2,084	1,239	466	1,258	5,047
Capital expenditures	2,075	16	524	1,217	3,832
	<u>2,084</u>	<u>1,239</u>	<u>466</u>	<u>1,258</u>	<u>5,047</u>
<b>For the year ended</b>					
<b>31 December 2021</b>					
Depreciation	3,508	2,151	–	1,229	6,888
Capital expenditures	1,463	2,133	–	676	4,272
	<u>1,463</u>	<u>2,133</u>	<u>–</u>	<u>676</u>	<u>4,272</u>

## 5. REVENUE, AND OTHER INCOME AND GAINS

Revenue represents the interest income from loans receivables, and revenue from sales of apparels and trendy cultural products, net of returns, discounts and sales related taxes. Further details regarding the Group's principal activities are disclosed in note 4.

The Group's revenue from contracts with customers represents revenue from sales of goods which is recognised on a point in time basis. An analysis of the Group's revenue and other income and gains, net, are as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Revenue from contracts with customers:</b>		
Sales of goods	75,989	129,254
<b>Revenue from other source:</b>		
Interest income from loans receivable	13,631	10,564
Total revenue	<u>89,620</u>	<u>139,818</u>
<b>Other gains and losses, net</b>		
Net fair value loss on financial assets at FVTPL	(10,111)	(2,679)
Interest income	105	1
Subcontracting income, net ( <i>note a</i> )	–	4,621
Gain on disposal of land and buildings ( <i>note b</i> )	74,762	–
Government subsidies ( <i>note c</i> )	432	1,764
Loss arising from derecognition of loans and interest receivables	–	(3,959)
Sundry income	1,033	2,083
	<u>66,221</u>	<u>1,831</u>

*Notes:*

- (a) Subcontracting income, net, refers to other income generated from provision of assembling services on apparels by the Group to other manufacturers, after deduction of the Group's incurred cost of services mainly including staff cost and material cost.
- (b) On 24 August 2022, the Group entered into a compensation agreement with Jiaxing Xiubei Development and Construction Co., Ltd ("Jiaxing Xiubei"), a state-owned enterprise appointed by the local authority to execute a transaction on land, pursuant to which, Jiaxing Xiubei agreed to purchase, and the Group agreed to sell its land together with its buildings attached with aggregate compensation of approximately HK\$81,659,000 payable by Jiaxing Xiubei, according to the relevant policy of the Xiuzhou Government for the purpose of urban area redevelopment. The transaction was completed in December 2022. Net gain from disposal of land and buildings of approximately HK\$74,762,000 (2021: nil) was recognised during the year ended 31 December 2022.

- (c) For the year ended 31 December 2022, included in profit or loss is HK\$432,000 (2021: nil) of government grants obtained from Employment Support Scheme (“ESS”) under the Anti-epidemic Fund launched by the Hong Kong SAR Government supporting the payroll of the Group’s employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have other unfulfilled obligations relating to this program.

For the year ended 31 December 2021, included in profit or loss is HK\$1,714,000 of government grants obtained from Paycheck Protection Program launched by the United States Government supporting the payroll of the Group’s employees and office rental expense. The Group does not have other unfulfilled obligations relating to this program.

The disaggregation of the Group’s revenue from contracts with customers on sale of goods are as follows:

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
<b>Geographical markets</b>		
The USA	2,031	89,056
Hong Kong	14,023	29,452
The PRC	59,935	10,746
	<hr/>	<hr/>
Total revenue from contracts, recognised at a point in time with customers	<b>75,989</b>	129,254
	<hr/> <hr/>	<hr/> <hr/>

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	2022 <i>HK\$’000</i>	2021 <i>HK\$’000</i>
As at 31 December		
Trade receivables	39,065	27,486
Contract liabilities	893	529
	<hr/> <hr/>	<hr/> <hr/>

The Group has applied the practical expedient to its sales contracts of apparels products and therefore no information is disclosed for revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for apparels production that had an original expected duration of one year or less.

## 6. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Auditor's remuneration		
– Audit service	990	798
– Non-audit service	125	–
Cost of inventories recognised as expense	75,560	101,119
Depreciation of property, plant and equipment	1,384	2,341
Depreciation of right-of-use assets	3,663	4,547
Foreign exchange loss, net	207	219
Provision for inventories	1,297	521
Write-off of other receivables	(2,586)	–
Provision for/(reversal of) ECL on trade receivables	550	(125)
Provision for ECL on loans and interest receivables	21,196	18,042
Short-term lease expense	667	352
Employee benefit expense (including directors' emoluments)		
– Wages and salaries	41,826	38,175
– Pension scheme contribution		
– defined contribution plans	2,230	779
– Share-based compensation	5,566	2,897
– Other benefits	1,097	857
	<u>          </u>	<u>          </u>

## 7. INCOME TAX EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
<b>Current income tax charged for the year:</b>		
Hong Kong profits tax	87	251
PRC EIT	7,385	–
	<u>          </u>	<u>          </u>
	<u>7,472</u>	<u>251</u>

- (i) Pursuant to the rules and regulations of the British Virgin Islands (“BVI”) and the Cayman Islands, the Group is not subject to any taxation under these jurisdictions.
- (ii) Hong Kong profits tax is calculated at 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong, except for the first HK\$2,000,000 of qualified entity’s assessable profit is calculated at 8.25% (2021: 8.25%), which is in accordance with the two-tiered profits tax rates regime.
- (iii) PRC EIT is provided at 25% (2021: 25%) on the estimated assessable profits of the Group’s PRC subsidiary for the year.

Under the law of the PRC on EIT, corporate withholding income tax is levied on the foreign investor for the dividends distributed out of the profits generated by the foreign investment enterprises. The Group’s applicable withholding income tax rate is 5% (2021: 5%).

- (iv) The USA CIT comprises federal income tax calculated at 15% and state and local income tax calculated at various rates on the estimated assessable profits of the Group’s subsidiary in the USA.

A reconciliation of income tax expense applicable to loss before income tax at the statutory tax rate to the income tax expense at the effective tax rate is as follows:

	<b>2022</b>	2021
	<i>HK\$’000</i>	<i>HK\$’000</i>
Loss before income tax	<b>(58,403)</b>	(46,020)
Tax calculated at the rates applicable to profits in the tax jurisdictions concerned	<b>(5,146)</b>	(8,626)
Tax effect of non-taxable and non-deductible items, net	<b>10,900</b>	6,928
Tax effect of tax losses not recognised	<b>1,718</b>	1,949
Income tax expense	<b>7,472</b>	251

## **8. DIVIDENDS**

No interim dividend was declared during the year (2021: Nil) and the board of directors of the Company does not recommend the payment of any final dividend for the year ended 31 December 2022 (2021: Nil).



## 9. LOSS PER SHARE

Basic loss per share is calculated by dividing the loss attributable to owners of the Company of approximately HK\$65,895,000 (2021: HK\$46,271,000) by the weighted average number of 1,845,279,000 (2021: 1,690,000,000) ordinary shares in issue during the year.

As shares options granted by the Company under its share option scheme and convertible bonds issued by the Company have an anti-dilutive effect to the basic loss per share calculation for the years ended 31 December 2021 and 2022, the diluted loss per share was the same as the basic loss per share.

## 10. GOODWILL

The amount of goodwill capitalised as an asset, arising from business combinations, is as follows:

	<i>HK\$'000</i>
Cost	
At 1 January 2021 and 31 December 2021	99,109
Acquisition of subsidiaries	41,346
Exchange differences	1,197
	<hr/>
<b>At 31 December 2022</b>	<b>141,652</b>
	<hr/>
<b>Accumulated impairment</b>	
At 1 January 2021 and 31 December 2021	64,477
Impairment	34,632
	<hr/>
<b>At 31 December 2022</b>	<b>99,109</b>
	<hr/>
<b>Net carrying amount</b>	
<b>At 31 December 2022</b>	<b>42,543</b>
	<hr/>
At 31 December 2021	34,632
	<hr/> <hr/>

For the purpose of impairment testing, goodwill are allocated to the cash generating units (“CGUs”) in relation to the Group’s provision of money lending services (“Money Lending CGU”) and sale of trendy cultural products (“Trendy Cultural Products CGU”) as follows:

	<b>2022</b>	2021
	<i>HK\$’000</i>	<i>HK\$’000</i>
Trendy Cultural Products CGU	<b>42,543</b>	–
Money Lending CGU	–	34,632
	<b>42,543</b>	34,632

The recoverable amounts of the CGUs has been determined from value-in-use calculation based on cash flow projections from formally approved budgets by management covering a five-year period. The discount rate applied to the cash flow projections is ranging from 12% to 17.5% (2021: 12.7%). Cash flows beyond the five-year period are extrapolated using a steady growth rate of 2% (2021: 2%), which does not exceed the long-term growth rate for the relevant industry. The discount rate used is pre-tax and reflected specific risks relating to the relevant CGU. The growth rate of cash flows ranging from 2% to 3% (2021: 3%) within the five-year period have been based on past experience.

The key assumptions used in the budget plan are as follow:

*Discount rate* – the discount rate used is pre-tax and reflects specific risks related to the CGU.

*Long term growth rate* – the weighted average growth rate used to extrapolate cash flows beyond the budget period.

No impairment was recognised on goodwill allocated to the Trendy Cultural Products CGU for the year ended 31 December 2022 as the recoverable amount of the Trendy Cultural Products CGU was higher than its carrying amount as at 31 December 2022.

The Group expects the business environment for money lending operation will deteriorate due to intense competition and this will result into a downward adjustment on future revenue from money lending operation. An impairment loss of goodwill of approximately HK\$34,632,000 was recognised for the year ended 31 December 2022 to write down the carrying amount of the Money Lending CGU to its recoverable amount as at 31 December 2022.

## 11. INVENTORIES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Raw materials and consumables	25	2,053
Work in progress	1,089	170
Finished goods	5,450	3,793
	<u>6,564</u>	<u>6,016</u>

## 12. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables	40,135	28,006
Less: provision for impairment loss	(1,070)	(520)
	<u>39,065</u>	<u>27,486</u>

Trade receivables are recognised at their original invoice amounts which represented their fair values at initial recognition. The Group's trade receivables are attributable to a number of independent customers with credit terms. The Group normally allows a credit period ranging from 10 to 180 days (2021: 10 to 180 days) to its customers. Trade receivables are non-interest bearing.

Ageing analysis of trade receivables based on invoice date and net of loss allowance is as follows:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 30 days	15,611	20,037
31 to 60 days	9,218	6,037
61 to 90 days	3,452	73
91 to 180 days	4,987	154
Over 180 days	5,797	1,185
	<u>39,065</u>	<u>27,486</u>

The movements in the loss allowance for impairment on trade receivables are as follows:

	<i>HK\$'000</i>
At 1 January 2021	645
Reversal of provision for loss allowance recognised during the year	(125)
	<hr/>
<b>At 31 December 2021 and 1 January 2022</b>	<b>520</b>
Provision for loss allowance recognised during the year	550
	<hr/>
<b>At 31 December 2022</b>	<b>1,070</b>
	<hr/> <hr/>

The Group provided for impairment loss on individual assessment. The Group did not hold any collateral as security over the trade receivables. However, for the year ended 31 December 2021, in order to minimise the credit risk of not receiving payments from its customers, the Group has entered into arrangements with a financial institution in the USA and a bank in Hong Kong (which in turn entered into certain arrangement with an insurance company in this connection), and Hong Kong Export Credit Insurance Corporation (a statutory body which provides Hong Kong exporters with insurance protection against non-payment risks arising from commercial and political events), which offered trade receivable underwriting arrangement against the Group's trade receivables for certain major customers. As at 31 December 2022, no trade receivables (2021: HK\$16,532,000) were under such arrangements of which if the Group ultimately becomes unable to collect the trade receivables, the Group will be entitled to receive compensation for the trade receivables from the financial institution, the bank and the statutory body.

### 13. LOANS AND INTEREST RECEIVABLES

	<b>2022</b>	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current</b>		
Loans receivable	–	1,807
Less: impairment loss	–	(4)
	<hr/>	<hr/>
	–	1,803
	<hr/>	<hr/>
<b>Current</b>		
Loans receivable	<b>137,108</b>	143,913
Interest receivables	<b>11,782</b>	4,998
Less: impairment loss	<b>(50,727)</b>	(36,047)
	<hr/>	<hr/>
	<b>98,163</b>	112,864
	<hr/>	<hr/>
	<b>98,163</b>	114,667
	<hr/> <hr/>	<hr/> <hr/>

The Group's loans and interest receivables, which arose from the money lending business of providing corporate loans, personal loans and property mortgage loans in Hong Kong, are denominated in HK\$.

As at 31 December 2022, loans and interest receivables of carrying amount of HK\$73,769,000 (2021: HK\$81,420,000) were unsecured while remaining loans and interest receivables of carrying amount of HK\$24,394,000 (2021: HK\$33,247,000) were secured by charges over certain properties in Hong Kong and personal properties such as diamonds and jewellery, and guaranteed by certain independent third parties. The interest rates on all loans receivable are from 2.3% to 24% (2021: 2.3% to 30%) per annum and loans receivable are due within 12 months (2021: 24) and contain repayment on demand clause. The maximum exposure to credit risk at each of the reporting date is the carrying value of the loans and interest receivables mentioned above.

Before granting loans to outsiders, the Group uses an internal credit assessment process to assess the potential borrower's credit quality and defines credit limits granted to borrowers. Limits attributed to borrowers are reviewed by the management regularly.

As at the reporting date, the Group reviewed its loans and interest receivables for evidence of impairment on both individual and collective basis.

The Group has measured impairment loss for loans and interest receivables based on 12-month ECLs unless there have been a significant increase in credit risk since origination, then the allowance will be based on lifetime ECLs. The Group has assessed the ECLs on loans and interest receivables based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

#### 14. TRADE PAYABLES

Credit periods of trade payables normally granted by its suppliers were ranging from 15 to 120 days (2021: 15 to 120 days).

Ageing analysis of trade payables as at the end of the reporting period based on invoice date is as follows:

	<b>2022</b> <b>HK\$'000</b>	2021 HK\$'000
0 to 30 days	8,250	3,375
31 to 60 days	2,956	6,485
61 to 90 days	5,328	303
91 to 180 days	888	3,821
Over 180 days	164	5,140
	<u>17,586</u>	<u>19,124</u>

#### 15. OTHER BORROWINGS

	<b>2022</b> <b>HK\$'000</b>	2021 HK\$'000
<b>Non-current</b>		
Liability component of convertible bonds	<u>24,024</u>	–
<b>Current</b>		
Promissory note	4,400	–
Margin loan payable, repayable within one year or on demand	<u>360</u>	<u>4,057</u>
	<u>4,760</u>	4,057
	<u>28,784</u>	<u>4,057</u>

## 16. LEASE LIABILITIES

The Group leases various offices under lease agreements. The lease agreements are between one to three years (2021: one to three 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. Leased assets are not used as security for borrowing purposes.

The lease payments are discounted using the interest rate implicit in the leases. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use assets in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk of lessee; and
- makes adjustments specific to the lease terms.

None of the leases contain variable lease payments.

	<b>Office premises</b> <i>HK\$'000</i>	<b>Office equipment</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>As at 1 January 2021</b>	4,351	624	4,975
Addition	3,541	–	3,541
Interest expense	200	25	225
Lease payments	(4,584)	(260)	(4,844)
	<hr/>	<hr/>	<hr/>
<b>As at 31 December 2021 and 1 January 2022</b>	<b>3,508</b>	<b>389</b>	<b>3,897</b>
Addition	2,183	171	2,354
Acquisition of subsidiaries	374	–	374
Interest expense	147	13	160
Lease payments	(3,791)	(255)	(4,046)
Exchange differences	(66)	–	(66)
	<hr/>	<hr/>	<hr/>
<b>As at 31 December 2022</b>	<b>2,355</b>	<b>318</b>	<b>2,673</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The present values of future lease payments as at the reporting dates are analysed as:

	<b>2022</b> <i>HK\$'000</i>	<b>2021</b> <i>HK\$'000</i>
Current liabilities	1,481	2,965
Non-current liabilities	1,192	932
	<hr/>	<hr/>
	<b>2,673</b>	<b>3,897</b>
	<hr/> <hr/>	<hr/> <hr/>
	<b>2022</b> <i>HK\$'000</i>	<b>2021</b> <i>HK\$'000</i>
Short-term lease expense	667	759
	<hr/>	<hr/>
Aggregate undiscounted commitments for short-term leases	–	667
	<hr/> <hr/>	<hr/> <hr/>



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group principally engages in (i) design, manufacture and trading of apparel, namely apparel operation; (ii) provision of money lending business, namely money lending operation; and (iii) selling of gaming and animated characters related products, namely intellectual property (“IP”) application and products operation.

### **REVENUE**

Economic activities were dampened by the deteriorated global environment and tightened financial conditions as well as the COVID-19 pandemic. Impacted by the weakened economy in 2022, the revenue of the Group decreased by 35.9% to approximately HK\$89,620,000 (2021: HK\$139,818,000).

### **APPAREL OPERATION**

Revenue from apparel operation is principally derived from the sales of apparel products.

Considering the prevalence of trade protectionism, the increasing uncertainties in US market and rising operating costs such as logistics costs, we shifted our principal target market for our apparel operation from the United States to Mainland China and Hong Kong during the year.

Economic activities were affected to certain extent by weak external economic growth and the resurgence of COVID-19 cases, causing a slow down in Mainland China economic growth in 2022.

On the other hand, although Hong Kong economy recorded decline in the first half of 2022 due to the fifth wave of the local epidemic, the economy saw improvement in the rest of the year alongside the stabilised local epidemic situation and relaxation of social restrictive measures.

As Mainland China and Hong Kong are the principal markets for our apparel operation, revenue from our apparel operation decreased in the reporting period due to difficult environment. Revenue from our apparel operation decreased by 42.5% to approximately HK\$74,337,000 for the year ended 31 December 2022 (2021: HK\$129,254,000). Our apparel operation remained the largest contributor to the Group’s business, accounting for 82.9% of the Group’s total revenue.

## **MONEY LENDING BUSINESS**

Our money lending business primarily offers loans to individual customers and small businesses in Hong Kong.

In 2022, our money lending business mainly focused on providing service to existing customers and offered new loans to them. Revenue from our money lending operation increased to approximately HK\$13,631,000 for the year ended 31 December 2022 (2021: HK\$10,564,000), representing an increase of approximately 29.0% as a result of the increase in interest income received/receivable from existing customers during the year. Money lending operation accounted for 15.2% of the Group's total revenue.

Provision of expected credit loss allowance on loans and interest receivables of approximately HK\$21,196,000 (2021: HK\$18,042,000) was recorded for the year ended 31 December 2022, increased by 17.5%.

Our loans and interest receivables (net of allowances) decreased by approximately 14.4%, from approximately HK\$114,667,000 as at 31 December 2021 to approximately HK\$98,163,000 as at 31 December 2022. The interest rate charged on all loans receivable ranged from 2.3% to 24% (2021: 2.3% to 30%) per annum.

## **IP APPLICATION AND PRODUCTS OPERATION**

Revenue from IP application and products operation is principally derived from selling of gaming and animated characters products of self-developed IPs or IPs licensed from third party, including blind boxes, action figures, garage kits. The principal market of our IP application and products is Mainland China.

In 2022, travel restrictions were imposed in many regions of Mainland China due to the resurgence of COVID-19 cases, causing short term impact on the local economy. With the adverse impact of the pandemic on the consumer industry, the revenue from our IP application and products operation was approximately HK\$1,652,000 for the reporting period. IP application and products operation is a new business operation for the Group.

## **COST OF SALES**

As there was no direct cost incurred for money lending operation, cost of sales was incurred entirely for apparel operation and IP application and products operation only. The cost of sales was approximately HK\$75,560,000 for the year ended 31 December 2022 (2021: HK\$101,119,000), decreased by 25.3%.

The decrease in cost of sales for 2022 was primarily reflected by less material costs due to decrease in revenue from apparel operation for the period.

## **GROSS PROFIT AND GROSS PROFIT MARGIN**

Gross profit for the year ended 31 December 2022 was approximately HK\$14,060,000 (2021: HK\$38,699,000), decreased by 63.7%. The gross profit margin decreased from approximately 27.7% for the year ended 31 December 2021 to 15.7% for the year ended 31 December 2022. During the year, apparel operation recorded gross loss of approximately HK\$161,000 (2021: gross profit HK\$28,135,000), while money lending operation contributed approximately HK\$13,631,000 (2021: HK\$10,564,000) and IP application and products operation contributed approximately HK\$590,000 to the gross profit.

The apparel operation recorded gross loss of approximately HK\$161,000 for the year ended 31 December 2022 (2021: gross profit HK\$28,135,000), due to decrease in revenue from apparel operation and increase in the proportion of revenue from customers which had lower gross profit margin.

The gross profit from money lending operation increased by 29.0% to approximately HK\$13,631,000 for the year ended 31 December 2022 (2021: HK\$10,564,000), as there was an increase in revenue from money lending operation in the year. The gross profit margin was 100% for money lending operation for the year ended 31 December 2022 (2021: 100%), as there was no direct cost incurred in generating revenue in the money lending operation.

The gross profit from IP application and products operation was approximately HK\$590,000, the gross profit margin was 35.7%.

## **OTHER GAINS AND LOSSES**

Other gains and losses was approximately HK\$66,221,000 for the year ended 31 December 2022 (2021: HK\$1,831,000), increased by 3,517%.

On 24 August 2022, the Group entered into a compensation agreement with Jiaxing Xiubei Development and Construction Co., Ltd, a state-owned enterprise appointed by the local authority to execute a transaction, pursuant to which, Jiaxing Xiubei agreed to purchase, and the Group agreed to sell its land situated at No. 493, Dade Road, Xincheng Street, Xiuzhou District, Jiaxing City, Zhejiang Province, the PRC (the “Target Land”) together with the properties (the “Target Properties”) located at the Target Land with aggregate compensation of approximately HK\$81,659,000 payable by Jiaxing Xiubei, according to the relevant policy of the Xiuzhou Government for the purpose of urban area redevelopment. The transaction was completed in December 2022. Net gain from disposal of land and buildings of approximately HK\$74,762,000 (2021: nil) was recognised during the year ended 31 December 2022.

We received wage subsidies of approximately HK\$432,000 in 2022 (2021: nil) granted from the Hong Kong SAR Government’s Employment Support Scheme under Anti-Epidemic Fund for the use of paying wages of employees.

During the year, resulting from the volatile conditions of the Hong Kong stock market and the financial performance of the respective investee companies, a net fair value loss on financial assets at fair value through profit or loss of approximately HK\$10,111,000 (2021: HK\$2,679,000) was recognised from the Group’s securities investments.

## **IMPAIRMENT LOSS ON GOODWILL**

Goodwill arose on the (i) acquisition of our money lending operation in November 2016, and (ii) acquisition of our IP application and products operation in July 2022. Goodwill was the fair value of consideration exceeding the fair value of the net identifiable assets of the acquiree. Goodwill is subject to impairment review periodically.

Impairment loss on goodwill for our money lending operation of approximately HK\$34,632,000 (2021: nil) was incurred in 2022. This arose from our downward adjustment on future revenue from money lending operation. We expect the business environment for money lending operation will deteriorate due to intense competition. The Group has appointed an independent valuer to assess the recoverable amount of the money lending operation.

Our money lending business primarily offers loans to individual consumers and small businesses in Hong Kong. In 2022, our money lending business mainly focused on providing service to existing customers.

There was no impairment loss on goodwill for our IP application and products operation.

## **(PROVISION FOR)/REVERSAL OF EXPECTED CREDIT LOSS ON TRADE RECEIVABLES**

Provision for expected credit loss on trade receivables of approximately HK\$550,000 (2021: Reversal of expected credit loss of HK\$125,000) was recorded for the year ended 31 December 2022. We provided impairment loss on trade receivables on individual assessment.

## **PROVISION FOR EXPECTED CREDIT LOSS ON LOANS AND INTEREST RECEIVABLES**

Provision for expected credit loss on loans and interest receivables of approximately HK\$21,196,000 (2021: HK\$18,042,000) was recorded for the year ended 31 December 2022, increased by 17.5%. In assessing the provision for expected credit loss for loans and interest receivables, the Group considered (i) the loan receivables which have been past due as at 31 December 2022; (ii) the repayment history of loan and interest receivables of each borrower during the year; and (iii) the probability of default rate due to the inability of the borrowers to make repayments to the Group when due.

The increase in the provision for expected credit loss was due to deterioration of the credit status of certain borrowers. The loans and interest receivables (net of allowances) decreased by approximately 14.4%, from approximately HK\$114,667,000 at 31 December 2021 to approximately HK\$98,163,000 at 31 December 2022.

## **ACQUISITION OF SUBSIDIARIES**

On 15 July 2022, the Group completed the acquisition of the entire issued share capital of Dreamtoys Inc (the “Acquisition”). Dreamtoys Inc and its subsidiaries (“Dreamtoys Group”) are principally engaged in the sale of trendy cultural products in Mainland China. The total consideration of the Acquisition would be settled by way of issuance of 1) promissory note in the aggregate principal amount of HK\$4,400,000; 2) 120,000,000 consideration shares of the Company; and 3) 60,000,000 consideration shares of the Company subject to escrow arrangement, under which the vendor of Dreamtoys Inc. guaranteed and undertake that the net profit after tax of Dreamtoys Inc for the year ended 31 December 2022 (the “Profit Guarantee Period”) should not be less than RMB3,600,000 (the “Guaranteed Profit”).

If the Guaranteed Profit is not achieved by Dreamtoys Inc., amount of consideration shares subject to escrow arrangement to be released to the vendor shall be adjusted downwards.

Dreamtoys Inc did not perform as expected and recorded net profit of approximately RMB3,229,000 for the year ended 31 December 2022, which failed to achieve the Guaranteed Profit in 2022. The Group has exercised the right to extend the Profit Guarantee Period to the year ending 31 December 2023 and the net profit after tax of Dreamtoys Inc for the two years ending 31 December 2023 shall not be less than RMB7,200,000.

Please refer to Company's announcements dated 25 January 2022, 15 July 2022 and Company's circular dated 13 May 2022 for details of the acquisition of Dreamtoys Inc. for details.

## **SELLING AND DISTRIBUTION EXPENSES**

Selling and distribution expenses mainly consist of (i) transportation costs for delivery of our products; and (ii) staff costs for our sales representatives. The selling and distribution expenses were mainly incurred for our apparel operation. The selling and distribution expenses incurred in the reporting period were approximately HK\$1,865,000 (2021: HK\$17,197,000), decreased by 89.2% on a year to year basis. Most of the selling and distribution expenses recorded declines for the period, in particular import duty and transportation costs because we delivered less products to the United States in the reporting period, as we shifted the principal target market for our apparel operation from the United States to Mainland China and Hong Kong. As a percentage of revenue, selling and distribution expenses decreased to 2.1% for the year ended 31 December 2022 from 12.3% for the year ended 31 December 2021.

## **ADMINISTRATIVE EXPENSES**

Administrative expenses primarily consist of (i) staff costs; (ii) share-based compensation; and (iii) professional fees. The administrative expenses for the year ended 31 December 2022 were approximately HK\$76,290,000 (2021: HK\$51,070,000), increased by 49.4%. In 2022, we incurred lay off expenses, which was included in staff costs, relating to relocation of production facilities from our old factory in Jiaying City to a new factory premises in Jiaying City, arisen from disposal of Target Land and Target Properties. The increase in the administrative expenses was also attributable to the increase in share-based compensation arisen from issuance of share options in the reporting period and the increase in professional fees.

## **FINANCE COSTS**

Finance costs were approximately HK\$3,991,000 (2021: HK\$366,000), increased by 990.4%. Finance costs were mainly the interest expenses derived from our convertible bonds and imputed interests on lease liabilities.

## **INCOME TAX EXPENSES**

Income tax expenses was approximately HK\$7,472,000 for the year ended 31 December 2022 (2021: HK\$251,000), increased by 2,882%. The increase in income tax expenses was mainly due to the income tax incurred for the gain on disposal of Target Land and Target Properties.

## **LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY**

The loss attributable to owners of the Company for the year ended 31 December 2022 was approximately HK\$65,895,000 (2021: HK\$46,271,000), representing an increase in loss attributable to the owners of the Company of 42.4%. As previously discussed, the increase in the loss attributable to owners of the Company for the year were mainly due to (i) revenue decreased for the year due to difficult environment, (ii) the impairment loss on our money lending operation and (iii) increase in administrative expenses. Nonetheless, this financial impact was offset in certain degree by gain on disposal of Target Land and Target Properties and decline in selling and distribution expenses.

## **GOODWILL**

Goodwill arose on the (i) acquisition of our money lending operation in November 2016, and (ii) acquisition of our IP application and products operation in July 2022. Goodwill was the fair value of consideration exceeding the fair value of the net identifiable assets of the acquiree. Goodwill is subject to impairment review periodically.

Impairment loss on goodwill for our money lending operation of approximately HK\$34,632,000 (2021: nil) was incurred in 2022. This arose from our downward adjustment on future revenue from money lending operation. We expect the business environment for money lending operation will deteriorate due to intense competition. The Group has appointed an independent valuer to assess the recoverable amount of the money lending operation. Goodwill for our money lending operation was impaired to nil at 31 December 2022 (2021: HK\$34,632,000).

There was no impairment loss on goodwill for our IP application and products operation. Goodwill for our IP application and products operation was valued at approximately HK\$42,543,000 at 31 December 2022.

## **INVENTORY**

The Group's inventories increased by 9.1%, from approximately HK\$6,016,000 as at 31 December 2021 to approximately HK\$6,564,000 as at 31 December 2022. The inventory turnover day increased from 22 days as at 31 December 2021 to 32 days as at 31 December 2022. In 2022, certain obsolete inventories of approximately HK\$1,297,000 (2021: HK\$521,000) were impaired.

## **TRADE RECEIVABLES**

The Group's trade receivables increased by 42.1%, from approximately HK\$27,486,000 as at 31 December 2021 to approximately HK\$39,065,000 as at 31 December 2022. The trade receivables turnover day increased from 72 days as at 31 December 2021 to 159 days as at 31 December 2022, primarily because there were more orders in 2022 derived from customers who requested for longer credit period.

## **LOANS AND INTEREST RECEIVABLES**

The Group's loans and interest receivables decreased by 14.4%, from HK\$114,667,000 as at 31 December 2021 to approximately HK\$98,163,000 as at 31 December 2022. The loans receivables as at 31 December 2022 were mainly comprised of mortgage loans receivables, corporate loans receivables and personal loans receivables.

## **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

The portfolio of the Group's financial assets at fair value through profit or loss business consisted of investments in listed securities of approximately HK\$10,634,000 that were held for trading as at 31 December 2022 (2021: HK\$15,681,000) and contingent receivable in connection to acquisition of subsidiaries of HK\$2,555,000.

No dividend income was received by the Group from its investments in listed securities (2021: Nil). Resulting from the volatile conditions of the Hong Kong stock market during the year and the financial performance of the respective investee companies, a net fair value loss on financial assets at fair value through profit or loss of approximately HK\$10,111,000 (2021: 2,679,000) was recognised from the Group's securities investments.

The objective of the Group's investments in the listed securities in Hong Kong is to capture profit from the appreciation of the market value of its invested securities and to receive dividend income. The Directors expect that the stock market in Hong Kong will remain volatile which may affect the performance of the Group's securities investments. The Board believes that the performance of the securities investments of the Group will be dependent on the financial and operating performance of the investee companies and the market sentiment, which are affected by factors, such as interest rate movements and performance of the macro economy. The Group will continue to adopt a conservative investment approach in its trading of listed securities in the Hong Kong stock market and closely monitor the performance of its securities investment portfolio.



## **TRADE PAYABLES**

The Group's trade payables decreased by 8.0%, from approximately HK\$19,124,000 as at 31 December 2021 to approximately HK\$17,586,000 as at 31 December 2022. The trade payables turnover day increased from 69 days as at 31 December 2021 to 85 days as at 31 December 2022, primarily due to less payments were made to suppliers during the year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2022, cash and cash equivalents amounted to approximately HK\$52,012,000 (2021: HK\$15,348,000). Total borrowings and lease liabilities of the Group as at 31 December 2022 was approximately HK\$31,457,000 (2021: HK\$7,954,000), of which approximately HK\$6,241,000 (2021: HK\$7,022,000) would be repayable within one year and all the remaining borrowing and lease liabilities of approximately HK\$25,216,000 (2021: HK\$932,000) would be repayable after one year.

The current ratio of the Group was approximately 4.42 as at 31 December 2022 (2021: 4.87).

## **GEARING RATIO**

The gearing ratio of the Group, calculated as total borrowing and lease liabilities over total equity was approximately 15.0% as at 31 December 2022 (2021: 4.1%).

## **CHARGE ON ASSETS**

As at 31 December 2022, the Group's financial assets at fair value through profit or loss of approximately HK\$10,634,000 (2021: HK\$15,681,000) were pledged as securities for the Group's other borrowings.

## **CONTINGENT LIABILITIES**

As at 31 December 2022, the Group did not have any material contingent liabilities (2021: nil).

## **TREASURY POLICY**

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

## **FOREIGN EXCHANGE EXPOSURE**

Substantial portion of the business transactions of the Group are either denominated in Renminbi ("RMB") or in Hong Kong dollars. The Board of Directors does not consider that the Group is exposed to any material foreign currency exchange risk. Therefore, no hedging instruments or any other alternatives have been used.

## **MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

On 15 July 2022, the Group completed the acquisition of the entire issued share capital of Dreamtoys Inc. Dreamtoys Inc. and its subsidiaries are principally engaged in the sale of trendy cultural products in Mainland China. The total consideration of the Acquisition would be settled by way of issuance of 1) promissory note in the aggregate principal amount of HK\$4,400,000; 2) 120,000,000 consideration shares of the Company; and 3) 60,000,000 consideration shares of the Company subject to escrow arrangement.

Dreamtoys Group is principally engaged in the research and development, operation and promotion of trendy cultural products. Dreamtoys Group has been cooperating with the gaming arm of a world-renowned Internet and mobile value-added service provider (the "Gaming Partner"). Owing to the Gaming Partner's high volume of high-quality intellectual property ("IP") resources, leading entertaining contents and user base, Dreamtoys Group seeks to create synergy with the Gaming Partner by further exploring the commercial values of the licenced IPs. The Gaming Partner has authorized the IP rights of the characters in its most famous games so that Dreamtoys Group can develop trendy cultural products derived from the elements of the IPs.

The operation of Dreamtoys Group forms part of our IP application and products operation.

Other than stated in above, there was no material acquisition or disposal of subsidiaries and affiliated companies during the years ended 31 December 2022 and 2021.

Please refer to Company's announcements dated 25 January 2022, 15 July 2022 and Company's circular dated 13 May 2022 for details of the acquisition of Dreamtoys Group for details.

## **CAPITAL COMMITMENTS**

As at 31 December 2022, the Group did not have any significant capital commitment (2021: nil).

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 December 2022, the Group had a total of 150 employees (2021: 181 employees). Total staff costs (including Directors' emoluments) for the year ended 31 December 2022 were approximately HK\$50,719,000, as compared to approximately HK\$42,708,000 for the year ended 31 December 2021.

Remuneration is determined with reference to market norms as well as individual employees' performance, qualification and experience.

The Company adopted a share option scheme (the "Scheme") on 22 November 2013 whereby the Board was authorised, at its absolute discretion and subject to terms of the Scheme, to grant options to subscribe for the shares of the Company to any full-time or part-time employee of the Company or any member of the Group (the "Eligible Participant"). On 19 April 2022, the Company granted options under the Scheme to Eligible Participants to enable the Eligible Participants to subscribe for an aggregate of 87,100,000 new shares of the Company.

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

There was no specific plan for material investments or capital assets as at 31 December 2022 (31 December 2021: nil).

## **PLACING OF CONVERTIBLE BONDS**

### **Completion of placing of convertible bonds in January 2022 (the “First Convertible Bonds”)**

In order to improve the Group’s financial position, the Company entered into a convertible bond placing agreement on 13 December 2021 in relation to the placing of convertible bonds in the principal amount of HK\$35,000,000 (the “First CB Placing”) which was completed on 6 January 2022. The net proceeds from the First CB Placing, after deduction of fees, commissions and expenses payable, were approximately HK\$34,125,000. The Company has applied the net proceeds from the the First CB Placing for general working capital of the Group as per disclosure in the announcements of the Company dated 13 December 2021 and 6 January 2022 respectively.

Details of the First CB Placing are set out in the announcements of the Company dated 13 December 2021 and 6 January 2022.

The First Convertible Bonds are convertible by the bondholders into ordinary share of the Company of HK\$0.01 each at the option of the bondholders, at a conversion price of HK\$0.1496 per share.

On 12 January 2022, principal amount of HK\$1,000,000 First Convertible Bonds were converted into 6,684,491 ordinary shares of the Company at the conversion price.

On 19 January 2022, principal amount of HK\$14,000,000 First Convertible Bonds were converted into 93,582,887 ordinary shares of the Company at the conversion price.

On 8 September 2022, principal amount of HK\$500,000 First Convertible Bonds were converted into 3,342,245 ordinary shares of the Company at the conversion price.

On 9 September 2022, principal amount of HK\$1,000,000 First Convertible Bonds were converted into 6,684,491 ordinary shares of the Company at the conversion price.

On 6 October 2022, principal amount of HK\$500,000 First Convertible Bonds were converted into 3,342,245 ordinary shares of the Company at the conversion price.

As at 31 December 2022, principal amount of HK\$18,000,000 First Convertible Bonds were outstanding and had not been converted into ordinary shares of the Company.

In case the outstanding First Convertible Bonds are fully converted into the ordinary shares of the Company at the conversion price, a maximum of 120,320,847 new shares will be allotted and issued by the Company.

### **Completion of placing of convertible bonds in August 2022 (the “Second Convertible Bonds”)**

In order to improve the Group’s financial position, the Company entered into a convertible bond placing agreement on 27 July 2022 in relation to the placing of convertible bonds in the principal amount of HK\$15,000,000 (the “Second CB Placing”) which was completed on 15 August 2022. The net proceeds from the Second CB Placing, after deduction of fees, commissions and expenses payable, were approximately HK\$14,850,000. The Company has applied the net proceeds from the the Second CB Placing for general working capital of the Group as per disclosure in the announcements of the Company dated 27 July 2022 and 15 August 2022 respectively.

Details of the Second CB Placing are set out in the announcements of the Company dated 27 July 2022 and 15 August 2022.

The Second Convertible Bonds are convertible by the bondholders into ordinary share of the Company of HK\$0.01 each at the option of the bondholders, at a conversion price of HK\$0.25 per share.

As at 31 December 2022, principal amount of HK\$15,000,000 Second Convertible Bonds were outstanding and had not been converted into ordinary shares of the Company.

In case the outstanding Second Convertible Bonds are fully converted into the ordinary shares of the Company at the conversion price, a maximum of 60,000,000 new shares will be allotted and issued by the Company.

### **FINAL DIVIDEND**

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

## **FUTURE PROSPECTS**

Looking ahead into 2023, with the removal of almost all COVID-related public health measures in Mainland China and Hong Kong, we expect economic activities will return to normal gradually. Domestic demand will provide growth momentum for economy.

We believe Mainland China still remains a major growth driver of the global economy in the foreseeable future, as it has contributed over the past few decades. The fundamentals of the Mainland China economy remain strong and resilient. A series of support measures has been introduced to promote economic development.

As the principal markets for our Group are Mainland China and Hong Kong, generally, we expect our operation will stage a recovery in 2023 along with the economic rebound in the Mainland China and Hong Kong.

For apparel operation, we will further expand its apparel portfolio and leverage trendy IPs to open up sportswear, children's wear and other markets. The Group will also grasp the opportunity to expand its business in the trendy cultural products closely related to apparel to seize the huge opportunities presented by the economic development of China.

For money lending operation, we continue to focus on providing service to existing customers.

For IP application and products operation, as the Mainland's regulator restarted to approve online game licenses in 2022, for which most of the approvals were released in the second half of 2022, we consider that the regulatory pressure is easing and this is another opportunity for our gaming and animated characters related products. We will explore more business opportunities with renowned gaming platforms for which we have developed close business relationship.

## **OTHER INFORMATION**

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

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

## **CORPORATE GOVERNANCE CODE**

The Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year. The Board will keep reviewing and updating such practices from time to time to ensure compliance with legal and commercial standards.

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the audited consolidated annual results of the Company for the year ended 31 December 2022 and considered that the Company had complied with all applicable accounting standards and requirements and had made adequate disclosure.

## **AUDITOR'S PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT**

The figures in respect of the announcement of the Group's consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

By order of the Board  
**Virtual Mind Holding Company Limited**  
**Li Yang**  
*Chairman & Executive Director*

Hong Kong, 30 March 2023

*As at the date of this announcement, the executive Directors of the Company are Mr. Li Yang, Ms. Tin Yat Yu Carol, Mr. Cheung Ka Lung, Mr. Chan Ming Leung Terence and Mr. Gong Xiaohan; and the independent non-executive Directors of the Company are Mr. Tang Shu Pui Simon, Mr. Hon Ming Sang and Ms. Lo Wing Sze JP.*