



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話 : +852 2218 8288
傳真 : +852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF HUASHI GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Huashi Group Holdings Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 4 to 72, which comprise the consolidated statements of financial position as at 31 December 2020, 2021, 2022 and 30 April 2023, and the statement of financial position as at 31 December 2021, 31 December 2022 and 30 April 2023, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2020, 2021, 2022 and the four months ended 30 April 2023 (the "**Track Record Period**") and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements, for the purpose of forming the basis of the historical financial information (see "Emphasis of Matter" section of this report), give a true and fair view of the financial position of the Company as at 31 December 2021, 2022 and 30 April 2023, the consolidated financial position of the Group as at 31 December 2020, 2021 and 2022 and 30 April 2023, and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Note 2 and Note 4.1 to the consolidated financial statements.

Basis for Opinion

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

Emphasis of Matter — Basis of Presentation and Preparation and Restriction on Distribution and Use

We draw attention to Note 2 and Note 4.1 to the consolidated financial statements, which describes the basis of presentation and preparation. These consolidated financial statements are prepared to form the basis of the historical financial information for inclusion in the prospectus of the Company in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited and accordingly may not be suitable for another purpose. Our report is intended solely for the directors of the Company and should not be distributed to or used by parties other than the directors of the Company. Our opinion is not modified in respect of this matter.



INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF HUASHI GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Directors' Responsibilities for the Consolidated Financial Statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the basis of presentation and preparation set out in Note 2 and Note 4.1 to the consolidated financial statements, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

Auditor's Responsibilities for Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our 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 HKSA's 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 HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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



INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF HUASHI GROUP HOLDINGS LIMITED

(incorporated in Cayman Islands with limited liability)

Auditor's Responsibilities for Audit of the Consolidated Financial Statements – Continued

- 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 directors 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.

REPORT ON THE REVIEW OF THE STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Group which comprises 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 four months ended 30 April 2022 and other explanatory information (together the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial information in accordance with the basis of presentation and preparation set out in Note 2 and Note 4.1 to the consolidated financial statements. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of forming the basis of the historical financial information (see "Emphasis of Matter" section of this report), is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Note 2 and Note 4.1 to the consolidated financial statements.

BDO Limited

Certified Public Accountants

Wan Che Bun

Practising Certificate Number P05804

Hong Kong, 31 October 2023

HUASHI GROUP HOLDINGS LIMITED

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

FOR THE YEARS ENDED 31 DECEMBER 2020, 2021 AND 2022 AND THE FOUR MONTHS ENDED 30 APRIL 2023

	Notes	Year ended 31 December			Four months ended 30 April	
		2020	2021	2022	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	6	103,444	157,637	207,167	60,663	75,014
Cost of services		(60,559)	(99,966)	(103,882)	(39,741)	(28,267)
Gross profit		42,885	57,671	103,285	20,922	46,747
Other income	7	1,272	954	402	144	2,637
Selling and marketing expenses		(2,663)	(4,601)	(6,406)	(1,786)	(3,276)
Administrative expenses		(10,231)	(20,148)	(29,544)	(7,420)	(10,469)
Listing expenses		(91)	(11,389)	(4,735)	(1,898)	(531)
(Provision for)/reversal of expected credit loss on financial and contract assets, net		(1,031)	1,362	(5,935)	(663)	(3,408)
Finance costs	8	(462)	(693)	(1,457)	(331)	(704)
Profit before income tax expense	9	29,679	23,156	55,610	8,968	30,996
Income tax expense	10	(5,358)	(4,682)	(9,951)	(1,634)	(5,018)
Profit for the year/period		24,321	18,474	45,659	7,334	25,978
Profit attributable to:						
- Owners of the Company		24,228	18,474	45,659	7,334	25,978
- Non-controlling interests	30	93	-	-	-	-
		24,321	18,474	45,659	7,334	25,978

HUASHI GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020, 2021 AND 2022 AND 30 APRIL 2023

	Notes	As at 31 December		As at 30 April	
		2020	2021	2022	2023
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Plant and equipment	14	7,958	6,611	17,958	15,449
Right-of-use assets	15	4,187	3,010	1,804	1,408
Intangible asset	16	5,824	4,734	3,569	3,181
Deferred tax assets	27	993	1,131	1,649	2,329
Prepayments	18	-	6,000	9,000	4,500
		18,962	21,486	33,980	26,867
Current assets					
Contract assets	19	288	179	2,319	635
Trade receivables	20	22,972	32,040	102,602	161,346
Deposits, prepayments and other receivables	21	22,293	5,491	20,586	20,974
Amount due from shareholders	23	-	307	307	307
Amount due from a non-controlling interests shareholder	23	1,848	-	-	-
Cash and cash equivalents	22	12,071	30,203	2,874	35,864
		59,472	68,220	128,688	219,126
Current liabilities					
Trade payables	24	8,513	10,803	7,908	64,846
Accruals and other payables	25	2,746	7,119	7,206	10,275
Contract liabilities	6	56	722	4,357	3,001
Lease liabilities	17	1,493	1,666	1,844	1,921
Borrowings	26	5,200	10,789	37,224	35,950
Income tax payable		1,422	1,156	3,877	4,652
		19,430	32,255	62,416	120,645
Net current assets		40,042	35,965	66,272	98,481
Total assets less current liabilities		59,004	57,451	100,252	125,348
Non-current liabilities					
Borrowings	26	-	3,400	719	-
Lease liabilities	17	4,485	2,840	996	17
Deferred tax liabilities	27	2,061	2,742	4,409	5,225
		6,546	8,982	6,124	5,242
Net assets		52,458	48,469	94,128	120,106

HUASHI GROUP HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – CONTINUED
AS AT 31 DECEMBER 2020, 2021 AND 2022 AND 30 APRIL 2023

	Notes	As at 31 December			As at 30 April
		2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
EQUITY					
Equity attributable to owners of the Company					
Share capital	29	-	322	322	322
Reserves	29	50,680	48,147	93,806	119,784
Equity attributable to owners of the Company		50,680	48,469	94,128	120,106
Non-controlling interests	30	1,778	-	-	-
Total equity		52,458	48,469	94,128	120,106

The consolidated financial statements were approved and authorised for issue by the board of the directors of the Company on 31 October 2023 and are signed on its behalf by:

Chen Jicheng
Executive director

Xue Yuchun
Executive director

HUASHI GROUP HOLDINGS LIMITED
STATEMENT OF FINANCIAL POSITION OF THE COMPANY
AS AT 31 DECEMBER 2021 AND 2022 AND 30 APRIL 2023

	Note	As at 31 December		As at 30 April
		2021 RMB'000	2022 RMB'000	2023 RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Investment in a subsidiary		_*	_*	_*
		_*	_*	_*
Current assets				
Amount due from shareholders	23	307	307	307
Amount due from a subsidiary	23	980	980	980
		1,287	1,287	1,287
Current liabilities				
Amount due to a subsidiary		_*	_*	_*
		_*	_*	_*
Net current assets		1,287	1,287	1,287
Net assets		1,287	1,287	1,287
EQUITY				
Capital and reserves				
Share capital	29	322	322	322
Reserves	29	965	965	965
Total equity		1,287	1,287	1,287

* The amount is less than RMB1,000

Approved and authorised for issue by the board of the directors of the Company on 31 October 2023 and are signed on its behalf by:

Chen Jicheng
Executive director

Xue Yuchun
Executive director

HUASHI GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**FOR THE YEARS ENDED 31 DECEMBER 2020, 2021 AND 2022
AND THE FOUR MONTHS ENDED 30 APRIL 2023**

	Share capital RMB'000 (Note 29)	Capital reserves* RMB'000 (Note a)	PRC statutory reserves* RMB'000 (Note b)	Retained profits* RMB'000	Total RMB'000	Non- controlling interests RMB'000 (Note 30)	Total equity RMB'000
At 1 January 2020	-	22,381	4,524	16,947	43,852	1,685	45,537
Profit for the year	-	-	-	24,228	24,228	93	24,321
Appropriation to PRC statutory reserves	-	-	2,637	(2,637)	-	-	-
Dividends declared and paid by a subsidiary (note 11)	-	-	-	(17,400)	(17,400)	-	(17,400)
At 31 December 2020 and 1 January 2021	-	22,381	7,161	21,138	50,680	1,778	52,458
Profit for the year	-	-	-	18,474	18,474	-	18,474
Appropriation to PRC statutory reserves	-	-	2,419	(2,419)	-	-	-
Issue of share capital	322	-	-	-	322	-	322
Transaction with a non-controlling interests shareholder of Wuyuan Fujie	-	-	-	(222)	(222)	(1,778)	(2,000)
Deemed distribution (note c)	-	(20,785)	-	-	(20,785)	-	(20,785)
At 31 December 2021 and 1 January 2022	322	1,596	9,580	36,971	48,469	-	48,469
Profit for the year	-	-	-	45,659	45,659	-	45,659
Appropriation to PRC statutory reserves	-	-	1,330	(1,330)	-	-	-
At 31 December 2022 and 1 January 2023	322	1,596	10,910	81,300	94,128	-	94,128
Profit for the period	-	-	-	25,978	25,978	-	25,978
At 30 April 2023	322	1,596	10,910	107,278	120,106	-	120,106
At 31 December 2021 and 1 January 2022	322	1,596	9,580	36,971	48,469	-	48,469
Profit for the period	-	-	-	7,334	7,334	-	7,334
At 30 April 2022 (Unaudited)	322	1,596	9,580	44,305	55,803	-	55,803

* The total of these amounts as at the reporting dates represents "Reserves" in the consolidated statements of financial position.

HUASHI GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY – CONTINUED

FOR THE YEARS ENDED 31 DECEMBER 2020, 2021 AND 2022
AND THE FOUR MONTHS ENDED 30 APRIL 2023

Notes:

- (a) Capital reserves represented the issued capital of the then holding company of the companies now comprising the Group and the capital contributions from the equity holders of certain subsidiaries upon completion of the Reorganisation.
- (b) Statutory reserves represented the amount transferred from net profit for the year of the subsidiaries established in the People's Republic of China ("PRC") (based on the subsidiaries' PRC statutory financial statements) in accordance with the relevant PRC laws until the statutory reserves reach 50% of the registered capital of the subsidiaries. The statutory reserves cannot be reduced except either in setting off the accumulated losses or increasing capital.
- (c) On 27 April 2021, each of Mr. Chen, Ms. Wang, Mr. Nie, Mr. Hu and Ms. Xue entered into an equity transfer agreement with Huashi Brand Management, pursuant to which each of Mr. Chen, Ms. Wang, Mr. Nie, Mr. Hu and Ms. Xue transferred their 76.8736%, 6.6207%, 6%, 4.9931% and 1.0115% equity interest in Huashi Media to Huashi Brand Management at the consideration of RMB16,720,000, RMB1,440,000, RMB1,305,000, RMB1,086,000 and RMB220,000 respectively, which were determined with reference to the then subscribed capital contribution of Huashi Media. Huashi HK and Mr. Shen entered into an equity transfer agreement (as further amended and supplemented by a supplemental agreement dated 6 May 2021), pursuant to which Mr. Shen transferred 4.5011% equity interest in Huashi Media to Huashi HK at the consideration of RMB979,700, which was determined with reference to his capital contribution to Huashi Media.

The Company and Mr. Shen entered into a subscription agreement, pursuant to which the Company allotted and issued 45,011 shares to Mr. Shen at the consideration of RMB979,000, which was determined with reference to the consideration for the transfer of the 4.5011% equity interest in Huashi Media from Mr. Shen to Huashi HK. The par value of 4.5011% ordinary share is RMB14,000 and the remaining proceeds of RMB965,000 were credited to capital reserves.

HUASHI GROUP HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2020, 2021 AND 2022
AND THE FOUR MONTHS ENDED 30 APRIL 2023

	Year ended 31 December			Four months ended 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
Cash flows from operating activities					
Profit before income tax expenses	29,679	23,156	55,610	8,968	30,996
Adjustments for:					
Interest income	(11)	(372)	(149)	(14)	(139)
Finance costs	462	693	1,457	331	704
Depreciation of plant and equipment	1,458	2,024	4,504	658	2,509
Amortisation of intangible assets	-	1,090	1,165	388	388
Depreciation of right-of-use assets	1,200	1,204	1,206	396	396
COVID-19-related rent concessions from lessors	(821)	-	-	-	-
Loss on disposals of plant and equipment	7	-	-	-	-
Provision for / (reversal of) expected credit loss on financial and contract assets, net	1,031	(1,493)	5,935	663	3,408
Operating profit before working capital changes	33,005	26,302	69,728	11,390	38,262
Increase in trade receivables	(8,632)	(8,947)	(75,555)	(4,402)	(62,637)
(Increase)/ decrease in contract assets	(34)	133	(2,307)	(1,579)	1,820
Decrease/ (increase) in deposits, prepayments and other receivables	3,546	(2,002)	(15,870)	(11,429)	(39)
Increase/(decrease) in trade payables	6,354	2,290	(2,895)	(882)	56,938
Increase in accruals and other payables	1,476	4,373	87	1,378	3,069
(Decrease)/ increase in contract liabilities	(4,337)	666	3,635	2,131	(1,356)
Cash generated from/ (used in) operations activities	31,378	22,815	(23,177)	(3,393)	36,057
Income tax paid	(3,027)	(4,405)	(6,081)	(1,694)	(4,107)
Net cash generated from/ (used in) operating activities	28,351	18,410	(29,258)	(5,087)	31,950
Cash flows from investing activities					
Interest received	11	372	149	14	139
Purchase of intangible asset	(5,824)	-	-	-	-
Purchase of plant and equipment	(5,715)	(677)	(15,851)	(8,496)	-
Prepayment for an intangible asset	-	(6,000)	(3,000)	(3,000)	-
Refund of prepayment for an intangible asset	-	-	-	-	4,500
Prepayment for plant and equipment	-	-	-	(1,104)	-
Repayments from/ (advances to) in amount due from shareholders	29,170	(307)	-	-	-
(Loan to)/ repayment from third party	(20,000)	20,000	-	-	-
Net cash (used in)/generated from investing activities	(2,358)	13,388	(18,702)	(12,586)	4,639

HUASHI GROUP HOLDINGS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED
FOR THE YEARS ENDED 31 DECEMBER 2020, 2021 AND 2022
AND THE FOUR MONTHS ENDED 30 APRIL 2023

Cash flows from financing activities					
Proceeds from borrowings	5,400	14,639	37,990	6,520	17,950
Repayment of borrowings	(1,278)	(5,650)	(14,236)	(1,620)	(19,943)
Lease payment	(856)	(1,753)	(1,842)	(898)	(942)
Dividends paid	(17,400)	-	-	-	-
Transaction arising from the reorganisation	-	(20,785)	-	-	-
Issue of share capital	-	322	-	-	-
Payments of loan interests	(110)	(439)	(1,281)	(263)	(664)
Net cash (used in)/generated from financing activities	(14,244)	(13,666)	20,631	3,739	(3,599)
Net increase/(decrease) in cash and cash equivalents	11,749	18,132	(27,329)	(13,934)	32,990
Cash and cash equivalents at beginning of the year/period	322	12,071	30,203	30,203	2,874
Cash and cash equivalents at end of the year/period	12,071	30,203	2,874	16,269	35,864

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated as an exempted company in the Cayman Islands on 18 February 2021 with limited liability under the Companies Act (as revised) of the Cayman Islands. The address of Company's registered office is located at 71 Fort Street, PO Box 500, George Town, Grand Cayman KY1-1106, Cayman Islands. The Company's principal place of business is located at PRC.

Pursuant to a group reorganisation (the "Reorganisation") as detailed in the paragraph headed "History, Reorganisation and Corporate Structure - Reorganisation" in the Prospectus, the Company became the holding company of the subsidiaries now comprising the Group on 18 February 2021. The Company has not carried on any business since the date of its incorporation save for the Reorganisation.

The principal activity of the Company is investment holding. The Group is principally engaged in provision of branding, advertising and marketing service in the PRC (the "Listing Business").

Particulars of the Company's subsidiaries at the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share capital/ registered capital	At the date of this report	Principal activities
Huashi International Group Limited (華視國際集團有限公司) ("Huashi International") (note c, i)	24 February 2021, British Virgin Island	US dollars ("USD") 1	100%	Investment holding
Huashi Group Limited (華視傳媒集團有限公司) ("Huashi HK") (note d, i)	16 March 2021, Hong Kong	HK dollars ("HKD") 50,000	100%	Investment holding
Huashi Zhongguang Brand Management (Hubei) Co., Ltd (華視中廣品牌管理(湖北)有限公司) ("Huashi Brand Management") (note d, e, g, i)	7 April 2021, PRC	RMB5,000,000	100%	Investment holding
Donghu Brand Research Institute Co., Ltd. (東湖品牌研究院有限公司) ("Donghu Brand Research") (note d, i)	20 April 2021, Hong Kong	HKD50,000	100%	Dormant company
Huashi Zhongguang International Media (Wuhan) Company Limited (華視中廣國際傳媒(武漢)有限責任公司) ("Huashi Media") (note d, f, h)	23 February 2011, PRC	RMB21,750,000	100%	Provision of branding, advertising and marketing service
Dabieshan Cultural Industry Development (Macheng) Co., Ltd (大別山文化產業發展(麻城)有限公司) ("Dabieshan Culture") (note d, f, h)	7 April 2017, PRC	RMB5,000,000	100%	Provision of branding, advertising and marketing service
Huashi Chuangxiang Culture Media (Hubei) Co., Ltd. (華視創享文化傳媒(湖北)有限公司) ("Huashi Chuangxiang") (note d, f, h)	26 December 2012, PRC	RMB5,000,000	100%	Provision of branding, advertising and marketing service
Beijing Wuyuan Fujie International Advertising Co., Ltd (北京無遠弗屆國際廣告有限公司) ("Wuyuan Fujie") (note d, f, h)	5 February 2018, PRC	RMB10,000,000	100%	Provision of branding, advertising and marketing service

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION – Continued

Notes:

- (a) The English names of all subsidiaries established in the PRC are translated for identification purpose only.
- (b) All companies comprising the Group have adopted 31 December as their financial year end date.
- (c) The equity interest is directly held by the Company at the date of this report.
- (d) The equity interest are indirectly held by the Company at the date of this report.
- (e) The entity is established in the PRC in the form of wholly foreign-owned enterprise.
- (f) The entities are established in the PRC in the form of domestic limited liability company.
- (g) The entity is established in the PRC in the form of domestic limited liability company. Pursuant to the Group Reorganisation, the entity became a sino-foreign owned enterprise on 25 March 2021.
- (h) The audited statutory financial statements of Huashi Media, Dabieshan Culture, Huashi Chuangxiang and Wuyuan Fujie for the years ended 31 December 2020, 2021 and 2022 were prepared in accordance with the Accounting Standards for Business Enterprises applicable to the Enterprises in the PRC and were audited by Wuhan Hengtong Chief Accountants Office (“武漢恒通會計師事務所”), certified public accountants registered in the PRC.
- (i) The audited statutory financial statements for the year ended 31 December 2022 were prepared in compliance with the Hong Kong Companies Ordinance and in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standard issued by HKICPA, and audited by Wong Wai Lun Certified Public Accountant registered in Hong Kong.

For the purpose of the Historical Financial Information of this report, the directors of the Company have prepared the Underlying Financial Statements in accordance with the basis of presentation set out in Note 2 below and accounting policies set out in Note 4.1 below which conform with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by HKICPA.

The Historical Financial Information has been prepared from the Underlying Financial Statements, with no adjustments made thereon.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. REORGANISATION AND BASIS OF PRESENTATION

During the Relevant Period, the Listing Businesses were conducted through Huashi Zhongguang International Media (Wuhan) Company Limited (“Huashi Media”). It was controlled by Mr. Chen Jicheng (the “Controlling Shareholder”). As detailed in the section headed “History, Reorganisation and Corporate Structure” in the prospectus, the Group underwent a reorganisation (“Reorganisation”) to optimise its corporate structure in connection with the Listing of the shares of the Company on the Stock Exchange.

The Company was incorporated in the Cayman Islands on 18 February 2021 as an exempted company with limited liability under the Cayman Islands Companies Act. Pursuant to the Reorganisation as detailed in the section headed “History, Reorganisation and Corporate Structure” in the prospectus, the Company became the holding company of the companies now comprising the Group on 18 February 2021. The Company, Huashi International, Huashi HK, Huashi Brand Management and Donghu Brand Research (together, the “Non-operating Companies”) are newly incorporated companies as part of the Reorganisation and none of these new holding companies carried out any businesses since their incorporation. The Non-operating Companies are inserted as holding companies of Huashi Media, which have no substance, have not been involved in any business and do not meet the definition of a business. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared based on that of Huashi Media which comprised the Group during the Track Record Period using the predecessor carrying amounts.

For the purpose of this report, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group as if the current structure had been in existence throughout the Relevant Period, or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period. The consolidated statements of financial position of the Group as at 31 December 2020, 2021, 2022 and 30 April 2023 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values, as if the current structure had been in existence at these dates or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated between the consolidating entities.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. ADOPTION OF NEW OR REVISED HKFRSs

New standards, interpretations and amendments not yet effective

At the date of the report, HKICPA has issued certain new or revised HKFRSs that have been issued but are not yet effective and have not been adopted early by the Group. The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new or amended HKFRSs is provided below.

Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture²</i>
Amendments to HKFRS 16 Leases	<i>Lease Liability in a Sale and Leaseback¹</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current¹</i>
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants¹</i>
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements¹</i>
Hong Kong Interpretation 5 (Revised)	<i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause¹</i>
1	Effective for annual periods beginning on or after 1 January 2024.
2	The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

The Group has already commenced an assessment of the impact of these new or revised standards and amendments. According to the preliminary assessment made by the Group, no significant impact on the financial performance and position of the Group is expected when they become effective.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with the accounting policies set out below, which conform with the HKFRSs issued by HKICPA. The Historical Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The HKICPA has issued a number of new or revised HKFRSs which are relevant to the Group and became effective during the Track Record Period. For the purpose of preparing and presenting the historical financial information, the Group has consistently applied the new or revised HKFRSs throughout the Track Record Period.

4.2 Basis of measurement

The Historical Financial Information has been prepared under the historical cost basis.

It should be noted that accounting estimates and assumptions are used in the preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and other factors, actual results may ultimately differ from those estimates. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

4.3 Functional and presentation currency

The Historical Financial Information is presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

4.4 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4.5 Intangible assets

Intangible assets acquired separately are initially recognised at cost.

Intangible assets with finite useful lives are subsequently amortised over the economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Amortisation is provided on a straight-line basis over their useful lives as follows:

Mobile application	5 years
--------------------	---------

4.6 Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of plant and equipment includes its purchase price and the costs directly attributable to the acquisition of the items.

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 repairs and maintenance are recognised as an expense in profit or loss during the financial period in which they are incurred.

Plant and equipment are depreciated so as to write off their costs net of estimated residual values over their estimated useful lives on straight line method. The useful lives, residual value and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The useful lives are as follows:

Leasehold improvements	Over the remaining life of the leases but not exceeding 5 years
Motor vehicles	10 years
Office equipment	3 - 5 years
Broadcasting equipment	5 years

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

The gain or loss on disposal of an item of plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.7 Financial instruments

a) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using effective interest method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Fair value through other comprehensive income (“FVOCI”): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss (“FVTPL”): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.7 Financial instruments – Continued

b) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss (“ECL”) on trade receivables and other financial assets measured at amortised cost. ECLs are measured on either of the following bases: (1) 12 months ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group measures loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

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

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.7 Financial instruments – Continued

b) Impairment loss on financial assets - Continued

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

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

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

In addition, the Group considers that an event of default occurs when there is a breach of financial covenants by the counterparty; or information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group). Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non-credit-impaired financial assets, interest income is calculated based on the gross carrying amount.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account except for investments in debt instruments that are measured at FVOCI, for which loss allowance is recognised in other comprehensive income. The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.7 Financial instruments – Continued

c) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable transaction costs incurred.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

d) Effective interest method

Effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the Track Record Period. This is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

e) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

f) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.8 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added taxes or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

The method the Group recognises revenue is affected by the role under each particular contract with customers. For contracts where the Group acts as a principal, the Group recognises revenue on a gross basis, while for contracts where the Group acts as an agent, the Group recognises revenue on a net basis. In determining whether the Group is acting as a principal or as an agent in the provision of services, it requires the Group's management's judgements and considerations of all relevant facts and circumstances, including but not limited to (a) whether the Group is primarily responsible for fulfilling the promise to provide the specified service; (b) whether the Group has inventory risk before the specified service has been transferred to a customer or after transfer of control to the customer; and (c) whether the Group has discretion in establishing the prices for the specified service. Specifically, for provision of advertisement placement services, the Group recognises revenue on a net basis.

(i) *Provision of branding services*

Revenue from provision of branding services is recognised over the service period. The progress towards complete satisfaction of a performance obligation is measured based on input method. Input method recognises revenue on the basis of the Group's effort or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.8 Revenue recognition – Continued

(ii) *Provision of event execution and production service*

Revenue from provision of event execution and production services is recognised over service period. The progress towards complete satisfaction of a performance obligation is measured based on input method. Input methods recognise revenue on the basis of the Group's effort or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation.

(iii) *Provision of multimedia advertising services*

Revenue from provision of integrated multimedia advertising services is recognised on a straight-line basis over the performance period for which the services are rendered, or recognised when the Group fulfilled the specific performance obligation under the finalised contract terms with customers.

Determining whether such revenue of the Group should be recognised as gross or net is based on a continuing assessment of various factors. The Group needs to first identify who controls the services before they are transferred to customers.

The Group is a principal if it obtains control of the services from suppliers that it then transfers to the customer. There are indicators that the Group is a principal, when the Group (i) is primarily obligated in fulfilling to provide the service meeting customer specifications; (ii) is subject to inventory risk; and (iii) has latitude in establishing prices and selecting suppliers.

The Group is an agent if it does not obtain control of the services before it is being transferred to the customer, and recognises revenue earned and costs incurred on a net basis. There are indicators that the Group is an agent, when the Group (i) is arranging the services to be provided by third parties; (ii) has no inventory risks; and (iii) has no discretion in establishing the prices for the specified services to be provided by the suppliers.

(iv) *Provision of advertisement placement services*

The Group provides advertisement placement services to the Group's advertisers. Media Partners also grant to the Group rebates in cash mainly based on the gross spending of the advertisers.

In these arrangements the Group (i) is merely responsible for helping advertisers or their agents to arrange the specified services to be transferred by the Media Partner; (ii) has no bearing for inventory risks because the Group does not have ownership of online media advertising resources provided by the Media Partner; and (iii) has no discretion in establishing the prices for the specified services to be provided by the Media Partner. The Group has no control on the specified service before that service is delivered to the advertisers and only act as the agent to help the advertisers or their agents to liaise with the Media Partner which will transfer the services to the advertisers or their agents. The online media platforms of the Media Partner are identified and determined by the advertisers or their agents and the Group has no ownership of the advertisement and has not acquired user traffic from the Media Partner. Instead, the Group helps to liaise with the Media Partner to arrange the advertisement placement on various media platforms of the Media Partner. Therefore, the Group recognises revenue earned and costs incurred related to these transactions on a net basis. Under these arrangements, the rebates earned from the Media Partners are recorded as revenue in the consolidated statements of profit or loss.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.8 Revenue recognition – Continued

The Group may offer rebates to customers as part of its incentive activities in some circumstances at its own discretion. When the Group has decided to offer such incentive rebates to its customers, the rebates offered are considered as variable considerations and hence recognised as a deduction of revenue for the period when the related promised services were transferred to the customers.

(v) *Interest income*

Interest income is recognised on a time-proportion basis using effective interest method.

Contract costs

Other than the costs which are capitalised as inventories, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Contract assets and liabilities

A contract asset represents the Group's right to consideration in exchange for services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due. Contract assets are subject to impairment assessment using HKFRS 9 simplified approach, details of which are included in the accounting policies for impairment of financial assets.

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

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.9 Leases

The Group as a lessee

All leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term of 12 months or less and do not contain purchase option. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets.

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed lease payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.9 Leases – Continued

Lease liability – Continued

Subsequent to the commencement date, the Group measures the lease liability by:

- (i) increasing the carrying amount to reflect interest on the lease liability;
- (ii) reducing the carrying amount to reflect the lease payments made; and
- (iii) remeasuring the carrying amount to reflect any reassessment or lease modification, or to reflect revised in-substance fixed lease payments.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease, in all other cases, where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount. With the exception to which the practical expedient for Covid-19-Related Rent Concessions applies, if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date and the right-of-use asset is adjusted by the same amount.

4.10 Foreign currency translation

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.11 Income tax

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and initial recognition of assets and liabilities that are not part of the business combination which affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4.12 Employee benefits

(a) Defined contribution retirement plan

Pursuant to the relevant regulations of the PRC government, the Group participates in a central pension scheme operated by the local municipal government (the "Scheme"), whereby the subsidiaries in the PRC is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiary of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

(b) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.13 Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- interest in subsidiaries;
- plant and equipment;
- right-of-use assets and
- intangible assets

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash generating unit).

Recognition of impairment losses

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

Reversals of impairment losses

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

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4.14 Government grant

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are deducted in reporting the related expense or recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in calculating the carrying amount of the asset that is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense. An unconditional government grant is recognised in profit or loss as other income when the grant becomes receivable.

4.15 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major services lines.

For the purposes of assessing segment performance and allocating resources between segments, the directors assess segment profit or loss by gross profit or loss as measured in HKFRS financial statements.

For the purpose of presenting geographical location of the Group's revenue from external customers and the Group's non-current assets, country of domicile is determined by reference to the country where the majority of the Company's subsidiaries operate.

4.16 Provisions and contingent liabilities

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

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

4.17 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits and highly liquid investments with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their value, and are used by the Group in the management of its short-term cash commitments. For the purpose of the statement of cash flows, bank overdrafts that are repayable on demand and that form an integral part of the Group's cash management are included in cash and cash equivalents.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

4.18 Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using effective interest method.

4.19 Related parties

For the purposes of the Historical Financial Information, a party is considered to be related to the Group if:

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.

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

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

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

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Useful lives of plant and equipment and intangible asset

The Group determines the estimated useful lives, and related depreciation and amortisation charges for its plant and equipment and intangible asset. The estimates are based on the historical experience of the actual useful lives of plant and equipment and intangible asset of similar nature and functions. Management will increase the depreciation and amortisation charges where useful lives are less than previously estimated useful lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in estimated useful lives and therefore affect the depreciation and amortisation charges in future periods.

(ii) Impairment of financial and contract assets

The impairment of trade and other receivables, and contract assets are based on assumptions about risk of default and expected credit loss rates. The Group adopts judgement in making these assumption and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, existing market conditions including forward looking estimates at end of reporting period.

Where the expectation is different from the original estimate, such difference will impact the carrying amount of financial and contract assets and impairment losses in the periods in which such estimate has been changed.

(iii) Income taxes and deferred tax

Significant judgement is required on the interpretation of tax laws and legislations during the estimation of the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognised liabilities for tax based on estimates of assessment of the tax liability due. Where the final tax outcome is different from the amounts that were initially recorded, such differences would impact the income tax and deferred income tax provisions, where applicable, in the period in which such determination is made.

Deferred tax assets are recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits would be available against which the unused tax losses and deductible temporary differences could be utilised. Significant management judgement is required to determine the amount of deferred tax assets that could be recognised, based on the likely timing and extent of future taxable profits together with future tax planning strategies.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – Continued

(iv) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on such available data as binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(v) Determination of revenue recognition on gross or net basis

As disclosed in Note 4.8, the Group provides provision of advertisement placement services and multi media advertising services to its customers, which involve the assessment of revenue recognition on a gross or net basis, i.e. principal vs agent assessment. The Group follows the accounting guidance for principal-agent considerations to assess whether the Group controls the specified service before it is transferred to the customer, the indicators of which including but not limited to (a) whether the Group is primarily responsible for fulfilling the promise to provide the specified service; (b) whether the Group has inventory risk before and after the specified service has been transferred to a customer; and (c) whether the Group has discretion in establishing the prices for the specified goods or service. The management considers the above factors in totality, as none of the factors individually are considered presumptive or determinative and applies judgment when assessing the indicators depending on each different circumstance.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE

Management has determined the operating segments based on the reports reviewed by chief executive officer. The chief executive officer, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive directors of the Company.

During the Track Record Period, the Group is principally engaged in the provision of branding, advertising and marketing services and advertisement placement services in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the chief executive officer of the Company regards that there is only one segment which is used to make strategic decisions.

The major operating entity of the Group is domiciled in the PRC. Accordingly, all of the Group's revenue were derived in the PRC during the Relevant Period.

As at 31 December 2020, 2021, 2022 and 30 April 2023, all of the non-current assets were located in the PRC.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE

Information about major customers

Revenue from external customers derived from provision of branding, advertising and marketing service and advertisement placement services contributing over 10% to the total revenue of the Group for the years ended 31 December 2020, 2021, 2022 and for the four months ended 30 April 2022 and 2023 were as follows:

	Year ended 31 December			Four months ended 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
Customer A	17,885	NA *	NA *	NA *	NA *

Revenue from these customers includes customers and its subsidiaries.

* Less than 10% of the total revenue of the Group in the respective years/period

Revenue mainly comprises of provision of branding, advertising and marketing service and advertisement placement services. An analysis of the Group's revenue by category for the years ended 31 December 2020, 2021, 2022 and for the four months ended 30 April 2022 and 2023 were as follows:

	Year ended 31 December			Four months ended 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
Revenue from contracts with customers					
Branding services	61,255	74,926	90,502	27,596	28,712
Event execution and production services	15,258	32,432	41,380	10,440	15,613
Online media advertising services	18,465	46,196	48,145	21,751	12,027
Traditional offline media advertising services	8,466	4,083	2,204	876	-
Provision of advertisement placement services	-	-	16,515	-	13,563
Rebates from Media Partner	-	-	8,421	-	5,099
	<u>103,444</u>	<u>157,637</u>	<u>207,167</u>	<u>60,663</u>	<u>75,014</u>

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE – Continued

	Year ended 31 December			Four months ended 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
Timing of revenue recognition					
Services transferred over time	103,444	157,637	173,346	60,663	46,162
Services transferred at a point in time	-	-	33,821	-	28,852
	103,444	157,637	207,167	60,663	75,014

(a) Assets recognised from incremental costs to obtain a contract

During the Relevant Period, there was no significant incremental costs to obtain a contract.

(b) Details of contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	As at 31 December			As at 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000	2023 RMB'000
Contract liabilities	56	722	4,357		3,001

(i) Significant changes in contract liabilities

Contract liabilities of the Group mainly arise from the advance payments made by customers while the underlying services are yet to be provided. Such liabilities increase as a result of the growth of the Group's business.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period is in relation to contract liabilities.

	Year ended 31 December			Four months ended 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000	2023 RMB'000
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year/period					
- Branding services	2,663	-	457		38
- Event execution and production services	1,138	56	265		589
- Online media advertising services	-	-	-		2,769
- Advertisement placement services	-	-	-		961
	3,801	56	722		4,357

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. OTHER INCOME

	Year ended 31 December			Four months ended 30 April	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest income	11	372	149	14	139
Government grants (Note)	154	100	3	-	211
COVID-19-related rent concessions from lessors	821	-	-	-	-
Input value-added tax surplus deduction	236	482	250	130	2,287
Gain from sales of office supplies	50	-	-	-	-
	1,272	954	402	144	2,637

Note:

Government grants represented the financial support received from local government as an incentive for business development and there are no unfulfilled conditions attached to the government grants.

8. FINANCE COSTS

	Year ended 31 December			Four months ended 30	
	2020	2021	2022	April	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on borrowings	110	439	1,281	263	664
Interest on lease liabilities (Note 17)	352	254	176	68	40
	462	693	1,457	331	704

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. PROFIT BEFORE INCOME TAX EXPENSE

Profit before income tax expense is arrived at after charging/(crediting) the following:

	Year ended 31 December			Four months ended 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
Cost of services provided by suppliers	56,761	94,743	95,552	37,489	24,367
Amortisation of intangible assets (Note 16)	-	1,090	1,165	388	388
Depreciation of plant and equipment (Note 14)	1,458	2,024	4,504	658	2,509
Depreciation of right-of-use assets - Leased properties (Note 15)	1,200	1,204	1,206	396	396
Research costs recognised as an expense	4,684	10,835	17,452	2,135	4,983
Loss on disposal of plant and equipment	7	-	-	-	-
Provision for/(reversal of) expected credit loss on financial and contract assets, net	1,031	(1,362)	5,935	663	3,408
Listing expenses	91	11,389	4,735	1,898	531
Short-term lease expenses	831	1,117	1,141	605	815
Staff costs (including directors' emoluments) :					
Salaries and bonus	7,320	9,666	12,363	3,745	5,686
Pension costs, housing funds, medical insurances and other social insurances	779	1,796	2,394	651	975
	8,099	11,462	14,757	4,396	6,661

10. INCOME TAX EXPENSE

	Year ended 31 December			Four months ended 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
Current tax for the current year/period	4,382	4,139	8,802	1,242	4,882
Deferred tax Charged to profit or loss for the year/period (Note 27)	976	543	1,149	392	136
	5,358	4,682	9,951	1,634	5,018

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAX EXPENSE - Continued

Under the Law of the PRC on Enterprise Income Tax ("EIT") and Implementation Regulations of the EIT Law, the tax rate of the Company's PRC subsidiaries is 25%.

Provision for the EIT for the year then ended was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

Huashi Media, one of the subsidiaries of the Company, is entitled to a preferential income tax rate of 15% for the years ended 31 December 2020, 2021, 2022 and for the four months ended 30 April 2022 and 2023, as it was awarded high-technology status by tax authority.

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

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

The income tax expense for the years/period can be reconciled to the profit before income tax expense per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Four months ended 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
Profit before income tax expense	29,679	23,156	55,610	8,968	30,996
Tax calculated at a tax rate of 25%	7,420	5,789	13,902	2,242	7,749
Tax effects of different tax rates applicable to different subsidiaries of the Group	(2,837)	(2,041)	(4,886)	(811)	(3,053)
Tax effect of expenses not deductible for tax purposes	547	703	1,594	88	1,045
Tax effect of income not taxable for tax purposes	(317)	-	-	-	-
Effect attributable to the additional qualified tax deduction relating to research and development costs	(636)	(485)	(1,912)	(301)	(581)
Tax effect of tax losses not recognised	205	173	109	24	-
Tax effect of other temporary differences recognised	976	543	1,149	392	136
Utilisation of tax losses previously not recognised	-	-	(5)	-	(278)
Income tax expense	5,358	4,682	9,951	1,634	5,018

11. DIVIDEND

On 18 August 2020, Huashi Media declared and paid an aggregate dividend of RMB17,400,000 to its then shareholders. Save as above, no other dividends has been paid or declared by the Company during the Relevant Period.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion for the purpose of this report is not considered meaningful.

13. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Details of directors' emoluments during the Relevant Period are as follows:

	Fee RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Pension costs, housing funds, medical insurances and other social insurances RMB'000	Total RMB'000
Year ended 31 December 2020					
<i>Executive Directors</i>					
Mr. Chen Jicheng	-	165	30	5	200
Ms. Wang Shujin	-	143	26	5	174
Mr. Zhang Bei	-	130	24	5	159
Ms. Xue Yuchun	-	109	24	5	138
	-	547	104	20	671
Year ended 31 December 2021					
<i>Executive Directors</i>					
Mr. Chen Jicheng	-	222	36	7	265
Ms. Wang Shujin	-	186	30	7	223
Mr. Zhang Bei	-	162	26	7	195
Ms. Xue Yuchun	-	153	52	7	212
	-	723	144	28	895

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS - Continued

(a) Directors' emoluments - Continued

	Fee RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Pension costs, housing funds, medical insurances and other social insurances RMB'000	Total RMB'000
Year ended 31 December 2022					
<i>Executive Directors</i>					
Mr. Chen Jicheng	-	246	40	8	294
Ms. Wang Shujin	-	210	34	8	252
Mr. Zhang Bei	-	173	28	8	209
Ms. Xue Yuchun	-	159	41	8	208
	-	788	143	32	963

	Fee RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Pension costs, housing funds, medical insurances and other social insurances RMB'000	Total RMB'000
Four months ended 30 April 2022 (Unaudited)					
<i>Executive Directors</i>					
Mr. Chen Jicheng	-	81	20	2	103
Ms. Wang Shujin	-	69	17	2	88
Mr. Zhang Bei	-	56	14	2	72
Ms. Xue Yuchun	-	53	13	2	68
	-	259	64	8	331

	Fee RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Pension costs, housing funds, medical insurances and other social insurances RMB'000	Total RMB'000
Four months ended 30 April 2023					
<i>Executive Directors</i>					
Mr. Chen Jicheng	-	84	15	5	104
Ms. Wang Shujin	-	72	13	5	90
Ms. Xue Yuchun	-	59	15	5	79
Mr. Zhang Bei	-	58	11	5	74
	-	273	54	20	347

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. DIRECTORS' EMOLUMENTS AND THE FIVE HIGHEST PAID INDIVIDUALS - Continued

Notes:

(i) The discretionary bonus was determined on a discretionary basis with reference to the Group's operating results, individuals performance and comparable market statistics.

(ii) No directors received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Period. No directors waived or agreed to waive any emoluments during the Relevant Period.

(b) The five highest paid individuals

The five highest paid individuals of the Group during the Relevant Period are analysed as follows:

	Year ended 31 December			Four months ended 30 April	
	2020	2021	2022	2022	2023
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals (Unaudited)</i>	<i>Number of individuals</i>
Directors	4	4	4	4	4
Non-directors, the highest paid individuals	1	1	1	1	1
	5	5	5	5	5

Details of the emoluments of the above non-directors, the highest paid individual during the Relevant Period are as follows:

	Year ended 31 December			Four months ended 30 April	
	2020	2021	2022	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries and bonus	111	180	181	53	49
Pension costs, housing funds, medical insurances and other social insurances	5	13	14	4	5
	116	193	195	57	54

The number of the highest paid non-directors fell within the following emoluments band:

	Year ended 31 December			Four months ended 30 April	
	2020	2021	2022	2022	2023
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals (Unaudited)</i>	<i>Number of individuals</i>
Nil to HK\$1,000,000	1	1	1	1	1
	1	1	1	1	1

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. PLANT AND EQUIPMENT

	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Broadcasting equipment RMB'000	Total RMB'000
COST					
At 1 January 2020	1,099	3,547	1,891	-	6,537
Additions	5,600	-	115	-	5,715
Disposals	-	-	(13)	-	(13)
At 31 December 2020 and 1 January 2021	6,699	3,547	1,993	-	12,239
Additions	200	155	322	-	677
At 31 December 2021 and 1 January 2022	6,899	3,702	2,315	-	12,916
Additions	3,660	3,599	1,241	7,351	15,851
At 31 December 2022 and 1 January 2023	10,559	7,301	3,556	7,351	28,767
Additions	-	-	-	-	-
At 30 April 2023	10,559	7,301	3,556	7,351	28,767
ACCUMULATED DEPRECIATION					
At 1 January 2020	528	1,466	835	-	2,829
Depreciation	779	337	342	-	1,458
Disposals	-	-	(6)	-	(6)
At 31 December 2020 and 1 January 2021	1,307	1,803	1,171	-	4,281
Depreciation	1,337	342	345	-	2,024
At 31 December 2021 and 1 January 2022	2,644	2,145	1,516	-	6,305
Depreciation	2,531	510	533	930	4,504
At 31 December 2022 and 1 January 2023	5,175	2,655	2,049	930	10,809
Depreciation	1,631	231	181	466	2,509
At 30 April 2023	6,806	2,886	2,230	1,396	13,318

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. PLANT AND EQUIPMENT – Continued

	Leasehold improvements RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Broadcasting equipment RMB'000	Total RMB'000
NET BOOK VALUE					
At 31 December 2020	5,392	1,744	822	-	7,958
At 31 December 2021	4,255	1,557	799	-	6,611
At 31 December 2022	5,384	4,646	1,507	6,421	17,958
At 30 April 2023	3,753	4,415	1,326	5,955	15,449

The above items of plant and equipment are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual values.

At 31 December 2020, 2021, 2022 and 30 April 2023, no plant and equipment was pledged.

15. RIGHT-OF-USE ASSETS

	Leased properties RMB'000
At 1 January 2020	5,387
Depreciation charge	(1,200)
At 31 December 2020 and 1 January 2021	4,187
Addition	27
Depreciation charge	(1,204)
At 31 December 2021 and 1 January 2022	3,010
Depreciation charge	(1,206)
At 31 December 2022 and 1 January 2023	1,804
Depreciation charge	(396)
At 30 April 2023	1,408

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS

	Mobile application RMB'000
Cost	
At 1 January 2020	-
Additions – externally acquired	5,824
At 31 December 2020, 2021, 2022 and 30 April 2023	5,824
Accumulated amortisation	
At 1 January, 31 December 2020 and 1 January 2021	-
Amortisation	1,090
At 31 December 2021 and 1 January 2022	1,090
Amortisation	1,165
At 31 December 2022 and 1 January 2023	2,255
Amortisation	388
At 30 April 2023	2,643
NET BOOK VALUE	
At 31 December 2020	5,824
At 31 December 2021	4,734
At 31 December 2022	3,569
At 30 April 2023	3,181

17. LEASE LIABILITIES

	Leased properties RMB'000
At 1 January 2020	7,303
Accretion of interest recognised during the year	352
COVID-19-related rent concessions from lessor	(821)
Payments	(856)
At 31 December 2020 and 1 January 2021	5,978
Commencement of lease	27
Accretion of interest recognised during the year	254
Payments	(1,753)
At 31 December 2021 and 1 January 2022	4,506
Accretion of interest recognised during the year	176
Payments	(1,842)
At 31 December 2022 and 1 January 2023	2,840
Accretion of interest recognised during the period	40
Payments	(942)
At 30 April 2023	1,938

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. LEASE LIABILITIES - Continued

Future lease payments are due as follows:

	As at 31 December 2020		
	Future lease payments RMB'000	Interest RMB'000	Present value RMB'000
Not later than one year	1,746	253	1,493
Later than one year and not later than two years	1,833	176	1,657
Later than two years and not later than five years	2,929	101	2,828
	6,508	530	5,978

	As at 31 December 2021		
	Future lease payments RMB'000	Interest RMB'000	Present value RMB'000
Not later than one year	1,843	177	1,666
Later than one year and not later than two years	1,935	91	1,844
Later than two years and not later than five years	1,006	10	996
	4,784	278	4,506

	As at 31 December 2022		
	Future lease payments RMB'000	Interest RMB'000	Present value RMB'000
Not later than one year	1,935	91	1,844
Later than one year and not later than two years	1,006	10	996
	2,941	101	2,840

	As at 30 April 2023		
	Future lease payments RMB'000	Interest RMB'000	Present value RMB'000
Not later than one year	1,982	61	1,921
Later than one year and not later than two years	17	-	17
	1,999	61	1,938

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. LEASE LIABILITIES - Continued

The present value of future lease payments are analysed as:

	As at 31 December		2022 RMB'000	As at 30 April
	2020 RMB'000	2021 RMB'000		2023 RMB'000
Current liabilities	1,493	1,666	1,844	1,921
Non-current liabilities	4,485	2,840	996	17
	5,978	4,506	2,840	1,938

18. PREPAYMENTS

	As at 31 December		2022 RMB'000	As at 30 April
	2020 RMB'000	2021 RMB'000		2023 RMB'000
Prepayments for an intangible asset	-	6,000	9,000	4,500
	-	6,000	9,000	4,500

19. CONTRACT ASSETS

	As at 31 December		2022 RMB'000	As at 30 April
	2020 RMB'000	2021 RMB'000		2023 RMB'000
Contract assets arising from:				
- Providing services	328	196	2,503	683
Less: allowance for impairment loss on contract assets	(40)	(17)	(184)	(48)
	288	179	2,319	635

Typical payment terms which impact on the amount of contract assets recognised are as follows:

Revenue earned from the services is initially recognised as contract asset as the receipt of consideration are conditional. Upon completion of services and acceptance by the customer, the amounts become unconditional and are reclassified to trade receivables. All of the contract assets are expected to be recovered within one year.

Further details on the Group's credit policy and credit risk analysis on contract assets set out in Note 35(b).

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. TRADE RECEIVABLES

	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Trade receivables	26,171	35,201	110,756	173,393
Less: allowance for impairment loss on trade receivables	(3,199)	(3,161)	(8,154)	(12,047)
	22,972	32,040	102,602	161,346

As at 31 December 2020, 2021, 2022 and 30 April 2023, the trade receivables was denominated in RMB, and the fair value of trade receivables approximated its carrying amounts.

As at 31 December 2020, 2021, 2022 and 30 April 2023, the ageing analysis of the trade receivables based on due date were as follows:

	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Not past due	22,970	31,988	102,554	161,203
Within 90 days	-	-	48	130
91 – 180 days	2	-	-	4
181 – 365 days	-	52	-	9
Over 1 year	-	-	-	-
	22,972	32,040	102,602	161,346

As at 31 December 2020, 2021, 2022 and 30 April 2023, the ageing analysis of the trade receivables based on invoice date were as follows:

	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Within 90 days	22,970	31,988	102,554	161,203
91 – 180 days	-	-	48	130
181 – 365 days	2	52	-	13
Over 1 year	-	-	-	-
	22,972	32,040	102,602	161,346

Further details on the Group's credit policy and credit risk analysis on trade receivables are set out in Note 35(b).

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Current assets				
Deposits and other receivables (Note)	20,630	626	433	233
Deposits paid on behalf of customers	-	-	6,014	8,064
Deposits to supplier	-	-	9,409	6,436
Less: allowance for impairment loss on deposit and other receivables	(1,278)	(129)	(904)	(555)
	19,352	497	14,952	14,178
VAT receivables	2	360	41	-
Prepayments	2,939	4,634	5,593	6,796
	22,293	5,491	20,586	20,974

Note:

Included in the Group's deposits and other receivables are unsecured fixed rate 4.35% loan receivables from third party of RMB20,000,000 which is recoverable within one year of RMB20,000,000 as at 31 December 2020. The loan receivables has been fully settled on 1 April 2021.

Further details on the Group's credit policy and credit risk analysis on deposits and other receivables are set out in Note 35(b).

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and balance with banks. RMB is not freely convertible to other currencies as such amounts were held by the subsidiaries located in the PRC. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies only through banks that are authorised to conduct foreign exchange business.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

23. AMOUNTS DUE FROM A SHAREHOLDER/ A NON-CONTROLLING INTERESTS SHAREHOLDER/ A SUBSIDIARY

The Group and the Company

Particulars of the amounts due from shareholders/a non-controlling interests shareholder:

	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Amounts due from shareholders:				
Chen Jicheng	-	248	248	248
Nie Xing	-	19	19	19
Wang Shujin	-	21	21	21
Hu Youyi	-	16	16	16
Xue Yuchun	-	3	3	3
	-	307	307	307
Amounts due from a non-controlling interests shareholder:				
Zhao Yulu	2,000	-	-	-
Less: allowance for impairment loss on amount due from a non-controlling interests shareholder	(152)	-	-	-
	1,848	-	-	-
Maximum balance outstanding:				
- During the year ended 31 December/ four months ended 30 April				
Chen Jicheng	41,780	248	248	248
Zhao Yulu	2,000	2,000	-	-
Nie Xing	-	19	19	19
Wang Shujin	-	21	21	21
Hu Youyi	-	16	16	16
Xue Yuchun	-	3	3	3

The amounts due from shareholders are non-trade in nature, unsecured, interest-free and repayable on demand. The amount will be settled prior to Listing.

The amounts due from a non-controlling interests shareholder is non-trade in nature, unsecured, interest-free and has been fully settled in January 2021.

The amount due from a subsidiary is non-trade in nature, unsecured, interest-free and repayable on demand.

Further details on the Group's credit policy and credit risk analysis on amounts due from shareholders/ a non-controlling interests shareholder are set out in Note 35(b).

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24. TRADE PAYABLES

As at 31 December 2020, 2021, 2022 and 30 April 2023, the ageing analysis of the trade payables based on services received were as follows:

	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Within 30 days	53	9,303	3,615	51,176
31 – 60 days	1,889	1,336	3,963	13,441
61 – 90 days	2,162	139	69	-
Over 90 days	4,409	25	261	229
	8,513	10,803	7,908	64,846

25. ACCRUALS AND OTHER PAYABLES

	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Accruals and other payables	710	4,311	3,676	7,470
Other tax payables	245	11	66	406
Salaries payables	1,791	2,797	3,464	2,399
	2,746	7,119	7,206	10,275

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. BORROWINGS

	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Bank and other loans — guaranteed (note i)	-	6,750	25,037	27,950
Bank loans — secured and guaranteed (Note ii)	4,200	4,200	9,000	8,000
Bank loans — unsecured and unguaranteed (Note iii)	1,000	3,239	3,906	-
	5,200	14,189	37,943	35,950
	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Carrying amounts repayable (based on the scheduled repayment dates set out in loan agreements):				
- Within 1 year	5,200	10,789	37,224	35,950
- More than 1 year, but not exceeding 2 years	-	3,400	719	-
	5,200	14,189	37,943	35,950
Less: Portion due on demand or within one year under current liabilities	(5,200)	(10,789)	(37,224)	(35,950)
Portion due over one year under non-current liabilities	-	3,400	719	-

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. BORROWINGS - Continued

Notes:

- (i) On 31 May 2021, a loan amounted to RMB5,000,000 was borrowed from Hubei Macheng Rural Commercial Bank Corporation Limited and bore interest charges at 5.70% per annum, of which RMB250,000 was repaid on 27 November 2021 and the remaining balance of RMB4,750,000 was repaid on 26 May 2022. The loan was guaranteed by a guarantee company.

On 15 December 2021, a loan amounted to RMB2,000,000 was borrowed from Agricultural Bank of China and bore interest charges at 4.00% per annum. The loan was fully repaid on 14 December 2022. The loan was guaranteed by a guarantee company and a Controlling Shareholder.

On 22 February 2022, a loan amounted to RMB2,000,000 was borrowed from China Citic Bank and bore interest charges at 5.50% per annum. The loan was fully repaid on 6 March 2023. The loan was guaranteed by a Controlling Shareholder.

On 29 April 2022, a loan amounted to RMB3,000,000 was borrowed from Wuhan Rural Commercial Bank and bore interest charges at 4.50% per annum. The loan was fully repaid on 24 April 2023. The loan was guaranteed by a Controlling Shareholder.

On 25 May 2022, a loan amounted to RMB790,000 was borrowed from Huaneng Guicheng Trust Corporation Ltd. and bore interest charges at 12.96% per annum, with total of twenty-four equal instalments of RMB32,916.67 each and eight equal instalments were repaid on 25 June 2022, 25 July 2022, 25 August 2022, 25 September 2022, 25 October 2022, 25 November 2022, 25 December 2022 and 25 January 2023 respectively and the remaining balance of RMB526,666.64 was fully repaid on 15 February 2023. The loan was guaranteed by a Controlling Shareholder.

On 25 May 2022, a loan amounted to RMB380,000 was borrowed from Huaneng Guicheng Trust Corporation Ltd. and bore interest charges at 10.80% per annum, with total of twenty-four equal instalments of RMB15,833.33 each and eight equal instalments were repaid on 17 June 2022, 17 July 2022, 17 August 2022, 17 September 2022, 17 October 2022, 17 November 2022, 17 December 2022 and 17 January 2023 respectively and the remaining balance of RMB253,333.36 was fully repaid on 17 February 2023. The loan was guaranteed by a Controlling Shareholder.

On 31 May 2022, a loan amounted to RMB5,000,000 was borrowed from Hubei Macheng Rural Commercial Bank Corporation Limited and bore interest charges at 5.70% per annum. The loan was guaranteed by a guarantee company.

On 1 June 2022, a loan amounted to RMB1,000,700 was borrowed from WeBank Co., Ltd. and bore interest charges at 12.96% per annum, with total of twenty-four equal instalments of RMB41,695.83 each and eight equal instalments were repaid on 25 June 2022, 25 July 2022, 25 August 2022, 25 September 2022, 25 October 2022, 25 November 2022, 25 December 2022 and 25 January 2023 respectively and the remaining balance of RMB672,176.89 was fully repaid on 15 February 2023. The loan was guaranteed by a Controlling Shareholder.

On 28 September 2022, a loan amounted to RMB3,000,000 was borrowed from Wuhan Rural Commercial Bank and bore interest charges at 5.15% per annum. The loan was guaranteed by a guarantee company and a Controlling Shareholder.

On 9 October 2022, a loan amounted to RMB6,000,000 was borrowed from China Merchants Bank Co., Ltd. and bore interest charges at 4.35% per annum. The loan was fully repaid on 6 April 2023. The loan was guaranteed by a Controlling Shareholder.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. BORROWINGS - Continued

Notes - Continued:

On 28 December 2022, a loan amounted to RMB2,500,000 was borrowed from China Merchants Bank Co., Ltd. and bore interest charges at 4.35% per annum. The loan was fully repaid on 31 March 2023. The loan was guaranteed by a Controlling Shareholder.

On 31 December 2022, a loan amounted to RMB2,000,000 was borrowed from Agricultural Bank of China and bore interest charges at 4.00% per annum. The loan was guaranteed by a guarantee company and a Controlling Shareholder.

On 12 January 2023, a loan amounted to RMB4,000,000 was borrowed from Wuhan Rural Commercial Bank and bore interest charges at 4.65% per annum. The loan was guaranteed by a Controlling Shareholder.

On 26 April 2023, a loan amounted to RMB2,950,000 was borrowed from Agricultural Bank of China and bore interest charges at 4.65% per annum. The loan was guaranteed by a Controlling Shareholder.

On 19 April 2023, a loan amounted to RMB6,000,000 was borrowed from China Merchants Bank Co., Ltd. and bore interest charges at 4.35% per annum. The loan was guaranteed by a Controlling Shareholder.

On 20 March 2023, a loan amounted to RMB5,000,000 was borrowed from Wuhan Rural Commercial Bank and bore interest charges at 4.50% per annum. The loan was guaranteed by a Controlling Shareholder and a subsidiary of the Group.

- (ii) On 24 August 2020, a loan amounted to RMB4,400,000 was borrowed from Hubei Bank Corporation Limited and bore interest charges at 4.35% per annum, which three equal instalments of RMB200,000 each was repaid on 20 November 2020, 20 February 2021 and 20 May 2021 respectively and the remaining balance of RMB3,800,000 was repaid on 24 August 2021. The loan was secured by the personal properties owned by a Controlling Shareholder and a related person and guaranteed by a Controlling Shareholder, a related person and an Independent Third Party.

On 31 August 2021, a loan amounted to RMB4,400,000 was borrowed from Hubei Bank Corporation Limited and bore interest charges at 5.60% per annum, of which RMB200,000 was repaid on 30 November 2021. The three equal instalments of RMB100,000 each repaid on 20 February 2022, 20 May 2022 and 20 August 2022 respectively and the remaining balance of RMB3,900,000 repaid on 1 September 2022. The loan was secured by the personal properties owned by a Controlling Shareholder and a related person and guaranteed by a Controlling Shareholder, a related person and an Independent Third Party.

On 1 September 2022, a loan amounted to RMB10,000,000 was borrowed from Hubei Bank Corporation Limited and bore interest charges at 6.40% per annum, of which RMB1,000,000 was repaid on 20 November 2022 and 20 February 2023 respectively. The loan was secured by the equity of the subsidiary owned by the Controlling Company, personal properties owned by a Controlling Shareholder and two related persons and guaranteed by a Controlling Shareholder and subsidiaries of the Group.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

26. BORROWINGS - Continued

Notes - Continued:

- (iii) On 9 July 2020, a loan amounted to RMB1,000,000 was borrowed from China Construction Bank Corporation and bore interest charges at 4.16% per annum. The loan was fully repaid on 8 July 2021.

On 9 July 2021, a loan amounted to RMB3,239,000 was borrowed from China Construction Bank Corporation and bore interest charges at 4.05% per annum. The loan was fully repaid on 7 April 2023.

On 2 August 2022, a loan amounted to RMB800,000 was borrowed from Jiangsu Suning Bank Co., Ltd. and bore interest charges at 18.00% per annum, with total of twenty-four equal instalments of RMB33,333.33 each and four equal instalments were repaid on 15 September 2022, 16 October 2022, 15 November 2022, 15 December 2022 and 15 January 2023 respectively and the remaining balance of RMB633,333.35 was repaid on 15 February 2023.

- (iv) The effective interest rate of the borrowings is 4.32%, 4.64%, 5.26% and 4.83% during 31 December 2020, 2021, 2022 and the period ended 30 April 2023, respectively.
- (v) The relevant banks will release the above guarantees and security provided by a Controlling Shareholder, and replace them with corporate guarantees or replacement security given by one or more members of the Group prior to the Listing.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. DEFERRED TAX

Details of the deferred tax assets and liabilities recognised and movements during the Relevant Period is as follows:

Deferred tax assets

	Temporary difference arising from lease liabilities RMB'000	Impairment loss on financial assets RMB'000	Other temporary differences RMB'000	Total RMB'000
At 1 January 2020	1,095	721	100	1,916
(Charged)/Credited to profit or loss for the year	(199)	1	(97)	(295)
At 31 December 2020 and 1 January 2021	896	722	3	1,621
(Charged)/Credited to profit or loss for the year	(211)	(215)	384	(42)
At 31 December 2021 and 1 January 2022	685	507	387	1,579
(Charged)/Credited to profit or loss for the year	(234)	877	(304)	339
At 31 December 2022 and 1 January 2023	451	1,384	83	1,918
(Charged)/Credited to profit or loss for the period	(83)	511	193	621
At 30 April 2023	368	1,895	276	2,539

Deferred tax liabilities

	Temporary difference arising from right-of-use assets RMB'000	Withholding tax of undistributed profits RMB'000	Total RMB'000
At 1 January 2020	808	1,200	2,008
Charged to profit or loss for the year	(180)	861	681
At 31 December 2020 and 1 January 2021	628	2,061	2,689
Charged to profit or loss for the year	(180)	681	501
At 31 December 2021 and 1 January 2022	448	2,742	3,190
Charged to profit or loss for the year	(179)	1,667	1,488
At 31 December 2022 and 1 January 2023	269	4,409	4,678
Charged to profit or loss for the period	(59)	816	757
At 30 April 2023	210	5,225	5,435

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

27. DEFERRED TAX - Continued

As at 31 December 2020, 2021, 2022 and 30 April 2023, the Group had unused tax losses of approximately RMB1,693,000, RMB1,511,000, RMB1,615,000 and RMB1,827,000 respectively, available to offset against future profit. No deferred tax asset has been recognised in respect of those tax losses due to the unpredictability of future profit streams.

For the purpose of presentation in statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As at 31 December		As at 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Deferred tax assets	993	1,131	1,649	2,329
Deferred tax liabilities	(2,061)	(2,742)	(4,409)	(5,225)
	(1,068)	(1,611)	(2,760)	(2,896)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

28. NOTES SUPPORTING TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Non-cash transactions

Wuyuan Fujie was established in the PRC on 5 February 2018 with an initial registered capital of RMB10,000,000. On the date of its establishment, Wuyuan Fujie was owned by Huashi Media and Zhao Yulu, an Independent Third Party, as to 80% and 20% respectively. The amount due from a non-controlling interest's shareholder represented the unpaid share capital of RMB2,000,000.

On 6 January 2021, Huashi Media and Mr. Zhao Yulu entered into an equity transfer agreement, pursuant to which Mr. Zhao Yulu transferred 20% equity interest in Wuyuan Fujie to Huashi Media at nil consideration, given that Mr. Zhao Yulu had not paid up the registered capital in respect of his interest at the time of the equity transfer, the amount due from a non-controlling interests shareholder of RMB2,000,000 which represented the registered capital of 20% equity interest in Wuyuan Fujie is offsetted accordingly.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES – Continued

(b) Reconciliation of liabilities arising from financing activities

	Borrowings	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2020	1,078	7,303	8,381
Changes from financing cash flows:			
Proceeds from borrowings	5,400	-	5,400
Repayment of borrowings	(1,278)	-	(1,278)
Payment of loan interests	(110)	-	(110)
Lease payments	-	(856)	(856)
	<u>4,012</u>	<u>(856)</u>	<u>3,156</u>
Other changes:			
Interest expenses	110	352	462
COVID-19-related rent concessions from lessors	-	(821)	(821)
	<u>5,200</u>	<u>5,978</u>	<u>11,178</u>
At 31 December 2020 and 1 January 2021			
Changes from financing cash flows:			
Proceeds from borrowings	14,639	-	14,639
Repayment of borrowings	(5,650)	-	(5,650)
Payment of loan interests	(439)	-	(439)
Lease payments	-	(1,753)	(1,753)
	<u>8,550</u>	<u>(1,753)</u>	<u>6,797</u>
Other changes:			
Commencement of lease	-	27	27
Interest expenses	439	254	693
	<u>14,189</u>	<u>4,506</u>	<u>18,695</u>
At 31 December 2021 and 1 January 2022			
Changes from financing cash flows:			
Proceeds from borrowings	37,990	-	37,990
Repayment of borrowings	(14,236)	-	(14,236)
Payment of loan interests	(1,281)	-	(1,281)
Lease payments	-	(1,842)	(1,842)
	<u>22,473</u>	<u>(1,842)</u>	<u>20,631</u>
Other changes:			
Interest expenses	1,281	176	1,457
	<u>37,943</u>	<u>2,840</u>	<u>40,783</u>
At 31 December 2022 and 1 January 2023			
Changes from financing cash flows:			
Proceeds from borrowings	17,950	-	17,950
Repayment of borrowings	(19,943)	-	(19,943)
Payment of loan interests	(664)	-	(664)
Lease payments	-	(942)	(942)
	<u>(2,657)</u>	<u>(942)</u>	<u>(3,599)</u>
Other changes:			
Interest expenses	664	40	704
	<u>35,950</u>	<u>1,938</u>	<u>37,888</u>
At 30 April 2023	<u>35,950</u>	<u>1,938</u>	<u>37,888</u>

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES – Continued

(b) Reconciliation of liabilities arising from financing activities – Continued

	Borrowings RMB'000	Lease liabilities RMB'000	Total RMB'000
At 31 December 2021 and 1 January 2022	14,189	4,506	18,695
Changes from financing cash flows:			
Proceeds from borrowings	6,520	-	6,520
Repayment of borrowings	(1,620)	-	(1,620)
Payment of loan interests	(263)	-	(263)
Lease payments	-	(898)	(898)
	<u>4,637</u>	<u>(898)</u>	<u>3,739</u>
Other changes:			
Interest expenses	263	68	331
At 30 April 2022 (Unaudited)	<u>19,089</u>	<u>3,676</u>	<u>22,765</u>

29. SHARE CAPITAL AND RESERVES

(a) Share capital

	Notes	Number	Amount US\$'000	Amount RMB'000
Authorised				
At 18 February 2021 (the date of incorporation)	(i)	50,000	50	322
Subdivision of share capital	(iii)	950,000	-	-
At 31 December 2021, 1 January 2022, 31 December 2022, 1 January 2023, and 30 April 2023		<u>1,000,000</u>	<u>50</u>	<u>322</u>
Issued and fully paid				
At 18 February 2021 (the date of incorporation)	(i)	20,771	21	135
Subdivision of share capital	(iii)	394,649	-	-
Issue of shares	(iv)	584,580	29	187
At 31 December 2021, 1 January 2022, 31 December 2022, 1 January 2023, and 30 April 2023		<u>1,000,000</u>	<u>50</u>	<u>322</u>

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. SHARE CAPITAL AND RESERVES - Continued

Notes:

- (i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 18 February 2021 with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of US\$1.00 each. On the same day, 16,720 ordinary shares, 1,440 ordinary shares, 1,305 ordinary shares, 1,086 ordinary shares and 220 ordinary shares were allotted and issued to Mr. Chen Jicheng (“Mr. Chen”), Ms. Wang Shujin (“Ms. Wang”), Mr. Nie Xing (“Mr. Nie”), Mr. Hu Youyi (“Mr. Hu”) and Ms. Xue Yuchun (“Ms. Xue”), respectively.
- (ii) On 25 April 2021, Mr. Chen, Ms. Wang, Mr. Nie, Mr. Hu and Ms. Xue transferred 16,720 ordinary shares, 1,440 ordinary shares, 1,305 ordinary shares, 1,086 ordinary shares and 220 ordinary shares in the Company to JaiYi Culture Media Limited (“JaiYi Culture”), Yuanjin Culture Media Company Limited (“Yuanjin Culture”), Youxin Capital Company Limited (“Youxin Capital”), Zhong Lun Culture Company Limited (“Zhong Lun Culture”) and Hubei Jiaying Culture Media Company Limited (“Hubei Jiaying Culture”) respectively. Upon completion of the said transfers, the Company was owned by JaiYi Culture, Yuanjin Culture, Youxin Capital, Zhong Lun Culture and Hubei Jiaying Culture as to approximately 80.5%, 6.9%, 6.3%, 5.2% and 1.1% respectively.
- (iii) On 7 June 2021, the issued and unissued shares of US\$1.00 each in the share capital of the Company were subdivided into 20 Shares of US\$0.05 each, such that the authorised share capital of the Company be subdivided from US\$50,000.00 divided into 50,000 ordinary shares of US\$1.00 each to US\$50,000.00 divided into 1,000,000 Shares of US\$0.05 each;
- (iv) On 7 June 2021, the Company allotted and issued 434,336 shares, 37,407 shares, 33,900 shares, 28,211 shares and 5,715 Shares to JaiYi Culture, Yuanjin Culture, Youxin Capital, Zhong Lun Culture and Hubei Jiaying Culture respectively at par value. On the same day, the Company and Mr. Shen entered into a subscription agreement, pursuant to which the Company allotted and issued 45,011 Shares to Mr. Shen at the consideration of RMB979,000.

(b) Reserves

The amounts of the Group’s reserves and the movements therein for the year/period are presented in the consolidated statement of changes in equity on page 8 of this report.

The Company

	Capital reserves RMB’000	Retained profits RMB’000	Total RMB’000
Balance at 18 February 2021 (the date of incorporation)	-	-	-
Issue of share capital	965	-	965
Balance at 31 December 2021, 1 January 2022, 31 December 2022, 1 January 2023 and 30 April 2023	965	-	965

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

30. NON-CONTROLLING INTERESTS

“Wuyuan Fujie”, an 80% owned subsidiary of the Company from 5 February 2018 to 5 January 2021, has non-controlling interests (“NCI”).

Summarised financial information in relation to the NCI of “Wuyuan Fujie” is presented below:

	Year ended 31 December			Four months ended 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2022 RMB'000 (Unaudited)	2023 RMB'000
Revenue	709	69	-	-	-
(Loss)/profit for the year/period	465	174	-	-	-
(Loss)/profit allocated to NCI	93	-	-	-	-
Dividends paid to NCI	-	-	-	-	-
Cash flows (used in)/ generated from operating activities	5	(5)	-	-	-
Net cash (outflows)/inflows	5	(5)	-	-	-
			As at 31 December		
			2020		
			RMB'000		
Current assets			8,849		
Non-current assets			44		
Current liabilities			-		
Non-current liabilities			-		
Net assets			<u>8,893</u>		
Accumulated non-controlling interests			1,778		

On 6 January 2021, Huashi Media and Mr. Zhao Yulu entered into an equity transfer agreement, pursuant to which Mr. Zhao Yulu transferred 20% equity interest in Wuyuan Fujie to Huashi Media at nil consideration, given that Mr. Zhao Yulu had not paid up the registered capital in respect of his interest at the time of the equity transfer, the amount due from a non-controlling interests shareholder of RMB2,000,000 which represented the registered capital of 20% equity interest in Wuyuan Fujie is offsetted accordingly.

The transaction has been accounted for as an equity transaction with the non-controlling interests as follows:

	RMB'000
Consideration payable for 20% ownership interest	2,000
Net assets attributable to 20% ownership interest	<u>1,778</u>
Decrease in equity attributable to owners of the Company (included in retained earnings)	<u>222</u>

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31. RELATED PARTIES TRANSACTIONS

The key management personnel are the Directors and the five highest paid individuals of the Company. The details of the emoluments paid to them are set out in Notes 13 respectively.

Except as disclosed above, no transactions, arrangements or contracts of significance in relation to the Group's business to which the Company was a party and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the financial year/period.

32. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings, respectively.

The directors of the Company review the capital structure on a continuous basis taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through the payment of dividends, new shares issue and share buy-back as well as the issue of new debts or redemption of existing debt, if necessary.

Management regards total equity as capital. The amount of capital as at 31 December 2020, 2021, 2022 and 30 April 2023 amounted to approximately RMB52,458,000, RMB48,469,000, RMB94,128,000 and RMB120,668,000 respectively, which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

The Group monitors capital using the debt/asset ratio, which is total liabilities divided by total assets. The debt-to-asset ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Total assets	78,434	89,706	162,668	245,993
Total liabilities	25,976	41,237	68,540	125,887
Debt/asset ratio	33.1%	46.0%	42.1%	51.2%

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

33. CAPITAL COMMITMENTS

As at 31 December 2020, 2021, 2022 and 30 April 2023, capital commitments not provided for in the consolidated financial statements were as follows:

	As at 31 December		As at 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Capital expenditure of the Group contracted for but not provided in the Historical Financial Information in respect of:				
— acquisition of intangible assets	-	14,000	11,000	15,500

34. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount of financial assets and liabilities:

	As at 31 December			As at 30 April
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Financial assets				
<u>Financial assets at amortised cost</u>				
Trade and other receivables	42,324	32,537	117,554	175,524
Cash and cash equivalents	12,071	30,203	2,874	35,864
Amount due from shareholders	-	307	307	307
Amount due from a non-controlling interests shareholder	1,848	-	-	-
Financial liabilities				
<u>Financial liabilities at amortised cost</u>				
Trade payables	8,513	10,803	7,908	64,846
Accruals and other payables	2,501	7,108	7,140	9,869
Borrowings	5,200	14,189	37,943	35,950
Lease liabilities	5,978	4,506	2,840	1,938

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks which result from the use of financial instruments in its ordinary course of operations. The financial risks include interest rate risk, credit risk, liquidity risk and currency risk.

Details of these financial instruments are disclosed in the notes below. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The directors meet regularly to identify and evaluate risks and to formulate strategies to manage financial risks in timely and effective manner. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below.

(a) Interest rate risk

The Group's fair value interest-rate risk mainly arises from other receivables and borrowings as disclosed in notes 21 and 26 to the Historical Financial Information. Other receivables and Borrowings were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The interest rates and terms of repayment of the Group's other receivables and borrowings are disclosed in notes 21 and 26 to the Historical Financial Information.

(b) Credit risk

The Group is exposed to credit risk in relation to its contract assets, trade receivables, other receivables, cash deposits at banks, amount due from shareholders and amount due from a non-controlling interests shareholder. The carrying amounts of these assets represent the Group's maximum exposure to credit risk.

Cash and cash equivalents and deposits with banks are normally placed at financial institutions that have sound credit rating and the Group considers the credit risk to be insignificant. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In order to minimise the credit risk, the Group adopts prudent credit control procedures, regularly monitor settlement of trade receivables and other monitoring procedures to ensure that follow-up action are taken to recover overdue debts. The credit period granted to customers are generally determined with reference to, among others, the financial position, credit record, duration of business relationship and the types of services the Group provide. Credit and payment terms may vary for different customers and projects. The Group generally issue invoices to customers after providing branding, advertising, event execution and production services and/or provision of advertisement placement services according to the contracts.

As at 31 December 2020, 2021, 2022 and 30 April 2023, the Group had certain concentrations of credit risk as 17.6%, 4.7% , 30.0% and 12.9%, of the Group's trade receivables were due from the Group's largest customer respectively and 49.3%, 26.5%, 34.6% and 18.6%, of the Group's trade receivables were due from the Group's five largest customers respectively. In order to minimise the credit risk, the Group continuously monitor the level of exposure by frequent review of credit quality of customers to ensure that prompt actions will be taken to lower the exposure.

As at 31 December 2020, 2021, 2022 and 30 April 2023, the Group applies the simplified approach to provide for expected losses on contract assets and trade receivables as prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision. The Group applies the general approach to provide for expected credit losses on other financial assets as prescribed by HKFRS 9, which was measured either as 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL RISK MANAGEMENT - Continued

(b) Credit risk - Continued

(i) Contract assets

As at 31 December 2020, 2021, 2022 and 30 April 2023, the loss allowance provision for contract assets was determined as follows. The expected credit losses below also incorporated forward looking information.

	As at 31 December			As at 30 April
	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000
Expected loss rate	12.2%	8.7%	7.4%	7.0%
Gross carrying amount				
- Not past due	328	196	2,503	683
Loss allowance provision	40	17	184	48

(ii) Trade receivables

As at 31 December 2020, 2021, 2022 and 30 April 2023, the loss allowance provision for trade receivables and rebates from Media Partner was determined as follows. The expected credit losses below also incorporated forward looking information.

Trade receivables

	Not past due	Within 90 days	91 to 180 days	181 to 365 days	Over 1 year	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2020						
Expected loss rate	12.2%	-	86.8%	-	-	
Gross carrying amount	26,153	-	18	-	-	26,171
Loss allowance provision	3,183	-	16	-	-	3,199
At 31 December 2021						
Expected loss rate	8.7%	-	-	66.7%	-	
Gross carrying amount	35,045	-	-	156	-	35,201
Loss allowance provision	3,057	-	-	104	-	3,161
At 31 December 2022						
Expected loss rate	7.5%	7.7%	-	-	-	
Gross carrying amount	105,232	52	-	-	-	105,284
Loss allowance provision	7,902	4	-	-	-	7,906
At 30 April 2023						
Expected loss rate	7.0%	7.1%	75.0%	76.3%	-	
Gross carrying amount	170,238	140	16	38	-	170,432
Loss allowance provision	11,962	10	12	29	-	12,013

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL RISK MANAGEMENT - Continued

(b) Credit risk - Continued

(ii) Trade receivables - Continued

Rebates from Media Partner

	Not past due RMB'000	Within 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	Over 1 year RMB'000	Total RMB'000
At 31 December 2022						
Expected loss rate	4.5%	-	-	-	-	
Gross carrying amount	5,472	-	-	-	-	5,472
Loss allowance provision	248	-	-	-	-	248

Rebates from Media Partner

	Not past due RMB'000	Within 90 days RMB'000	91 to 180 days RMB'000	181 to 365 days RMB'000	Over 1 year RMB'000	Total RMB'000
At 30 April 2023						
Expected loss rate	1.1%					
Gross carrying amount	2,961					2,961
Loss allowance provision	34					34

Expected loss rate are based on actual loss experience over the past 3 years. These rates are adjusted to reflected differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL RISK MANAGEMENT - Continued

(b) Credit risk - Continued

(iii) *Deposit and other receivables*

As at 31 December 2020, 2021, 2022 and 30 April 2023, the loss allowance provision for deposits and other receivables was determined as follows. The expected credit losses below also incorporated forward looking information.

	As at 31 December		As at 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Expected loss rate	6.2%	20.5%	5.7%	3.8%
Gross carrying amount	20,630	626	15,856	14,733
Loss allowance provision	1,278	129	904	555

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the differences between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive.

(iv) Amounts due from a non-controlling interests shareholder

As at 31 December 2020, 2021, 2022 and 30 April 2023, the loss allowance provision for amounts due from a non-controlling interests shareholder was determined as follows. The expected credit losses below also incorporated forward looking information.

	As at 31 December		As at 30 April	
	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000
Expected loss rate	7.6%	-%	-%	-%
Gross carrying amount	2,000	-	-	-
Loss allowance provision	152	-	-	-

(v) Other financial assets at amortised cost

Cash and cash equivalents is subjected to the impairment requirements of HKFRS 9. The identified impairment loss was immaterial since they are placed at financial institutions with good credit rating.

For amounts due from shareholders which are considered to have low credit risk, the measurement of loss allowance was therefore based on 12 months ECLs. Management considered as low credit risk since they have a low risk of default. No impairment loss is recognised during the Relevant Periods.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL RISK MANAGEMENT - Continued

(b) Credit risk - Continued

The following tables show reconciliation of loss allowances that has been recognised for contract assets applying simplified approach.

	Lifetime expected credit losses RMB'000	Total RMB'000
At 1 January 2020	36	36
Impairment losses recognised, net	4	4
At 31 December 2020 and 1 January 2021	40	40
Reversal of provision during the year	(23)	(23)
At 31 December 2021 and 1 January 2022	17	17
Impairment losses recognised, net	167	167
At 31 December 2022 and 1 January 2023	184	184
Reversal of provision during the period	(136)	(136)
At 30 April 2023	48	48

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL RISK MANAGEMENT - Continued

(b) Credit risk - Continued

The following table shows the movement in lifetime expected credit losses that has been recognised for trade receivables applying simplified approach.

	Lifetime expected credit losses RMB'000	Total RMB'000
At 1 January 2020	3,191	3,191
Impairment losses recognised , net	8	8
At 31 December 2020 and 1 January 2021	3,199	3,199
Reversal of provision during the year	(38)	(38)
At 31 December 2021 and 1 January 2022	3,161	3,161
Impairment losses recognised , net	4,993	4,993
At 31 December 2022 and 1 January 2023	8,154	8,154
Impairment losses recognised, net	3,893	3,893
At 30 April 2023	12,047	12,047

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL RISK MANAGEMENT - Continued

(b) Credit risk – Continued

The following tables shows reconciliation of loss allowances that has been recognised for deposits and other receivables.

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	<u>12-month expected credit losses</u>	<u>Lifetime expected credit losses – not credit impaired</u>	<u>Lifetime expected credit losses – credit- impaired</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	72	-	-	72
- Impairment losses recognised , net	1,206	-	-	1,206
At 31 December 2020 and 1 January 2021	1,278	-	-	1,278
- Reversal of provision during the year	(1,149)	-	-	(1,149)
At 31 December 2021 and 1 January 2022	129	-	-	129
- Impairment losses recognised , net	775	-	-	775
At 31 December 2022 and 1 January 2023	904	-	-	904
- Reversal of provision during the period	(349)	-	-	(349)
At 30 April 2023	555	-	-	555

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL RISK MANAGEMENT - Continued

(b) Credit risk – Continued

The following tables show reconciliation of loss allowances that has been recognised for amounts due from a non-controlling shareholder.

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	<u>12-month</u> <u>expected</u> <u>credit losses</u>	<u>Lifetime</u> <u>expected</u> <u>credit</u> <u>losses –</u> <u>not credit-</u> <u>impaired</u>	<u>Lifetime</u> <u>expected</u> <u>credit losses</u> <u>– credit-</u> <u>impaired</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	339	-	-	339
- Reversal of provision during the year	(187)	-	-	(187)
At 31 December 2020 and 1 January 2021	152	-	-	152
- Reversal of provision during the year	(152)	-	-	(152)
At 31 December 2021, 1 January 2022, 31 December 2022, 1 January 2023 and 30 April 2023	-	-	-	-

As at 31 December 2020, 2021, 2022 and 30 April 2023, the gross carrying amount of contract assets, trade receivables, other receivables, amount due from shareholders and amount due from a non-controlling interests shareholder was RMB49,129,000, RMB36,230,000, RMB129,422,000 and RMB189,116,000, thus the maximum exposure to loss was RMB42,612,000, RMB32,716,000, RMB120,180,000 and RMB176,466,000 respectively.

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL RISK MANAGEMENT - Continued

(c) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from current interest rate at the end of each reporting period.

	Carrying amount RMB'000	Total contractual undiscounted cash flows RMB'000	Within one year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
As at 31 December 2020						
Trade payables	8,513	8,513	8,505	8	-	-
Accruals and other payables	2,501	2,501	2,501	-	-	-
Borrowings	5,200	5,340	5,340	-	-	-
	16,214	16,354	16,346	8	-	-
As at 31 December 2021						
Trade payables	10,803	10,803	10,795	8	-	-
Accruals and other payables	7,108	7,108	7,108	-	-	-
Borrowings	14,189	14,810	11,284	3,526	-	-
	32,100	32,721	29,187	3,534	-	-
As at 31 December 2022						
Trade payables	7,908	7,908	7,908	-	-	-
Accruals and other payables	7,140	7,140	6,935	205	-	-
Borrowings	37,943	39,019	38,268	751	-	-
	52,991	54,067	53,111	956	-	-
As at 30 April 2023						
Trade payables	64,846	64,846	64,846	-	-	-
Accruals and other payables	9,869	9,869	9,869	-	-	-
Borrowings	35,950	36,846	36,846	-	-	-
	110,665	111,561	111,561	-	-	-

HUASHI GROUP HOLDINGS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

35. FINANCIAL RISK MANAGEMENT - Continued

(d) Currency risk

The Group mainly operated in the PRC with most of the transactions settled in RMB and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

36. FAIR VALUE MEASUREMENT

a) Financial instruments not measured at fair value

Financial instruments not measured at fair value include deposits and bank balances, trade receivables, deposits and other receivables, trade payables, accruals and other payables and borrowings.

Due to their short term nature, the carrying values of these financial instruments approximates fair values.

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2020, 2021, 2022 and 30 April 2023.

37. EVENTS AFTER THE END OF RELEVANT PERIOD

The Group has no significant events took place after the end of the Relevant Period that needs to be disclosed.

38. SUBSEQUENT FINANCIAL INFORMATION

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 April 2023